

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**FINANCIAL AND COMPLIANCE  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2001**



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

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**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**Reporting Entity And Scope**

The reporting entity and scope of this audit and audit report is the New Hampshire Department of Youth Development Services as of and for the fiscal year ended June 30, 2001. During this period, the Department of Youth Development Services' operations extended across three facilities: the Youth Development Center in Manchester, N.H., and the Youth Detention Services Unit and the Tobey Special Education School located in Concord, N.H. The Concord facilities comprise the Department's organizational unit known as the Youth Services Center.

Effective September 14, 2001, pursuant to Chapter 286, Laws of 2001, all functions, powers, duties, personnel, records, property, and funds of the Department of Youth Development Services under RSA 621 and RSA 621-A were transferred to the New Hampshire Department of Health and Human Services. Effective with the transfer, the Division for Juvenile Justice Services was established within the Department of Health and Human Services for the administration of juvenile justice services including, but not limited to, the administration of the Youth Development Center and the Youth Services Center. This audit was performed at the request of the Commissioner of the Department of Youth Development Services.

The following report describes the operation of the Department of Youth Development Services as it existed during the period under audit. Unless otherwise indicated, reference to the Department refers to the Department of Youth Development Services. Auditee responses to observations in the report include references to the Department and also to the Division for Juvenile Justice Services (DJJS), which came into existence subsequent to the end of the audit period.

**Organization**

The Department of Youth Development Services is comprised of several divisions.

*Administration* - The Division of Administration provides administrative support to all divisions of the Department. This division is composed of Fiscal Management, Human Resources, and Purchasing/Stockroom Services.

*Residential Services* - The Division of Residential Services delivers an array of programs and services to the youth within the facilities of the Youth Development Center in Manchester and the Youth Detention Services Unit in Concord.

*Health Services* - The Health Services Division provides a variety of medical, nursing, dental, and psychiatric services to the youth residing at Department facilities. Nursing services are available 24 hours each day.

*Educational Services* - The Division of Educational Services provides educational services to youth at its three facilities. All faculty are New Hampshire certified.

*Professional Development Unit* - The Professional Development Unit follows basic training standards set forth by the American Correctional Association for Juvenile Justice Facilities. This unit provides orientation and pre-service and in-service training to employees.

*Information Technology* - The Division of Information Technology provides information technology planning, support, and guidance to all divisions and employees of the Department.

The Department of Youth Development Services operates from two locations. The Youth Development Center campus is located at 1056 North River Road in Manchester, New Hampshire. The Department's administrative offices are also housed on campus grounds. The Tobey Special Education School and the Youth Detention Services Unit operate out of the Tobey Building at 45 South Fruit Street in Concord, New Hampshire.

At June 30, 2001, the Department of Youth Development Services employed 240 permanent full-time and 25 part-time employees.

## **Responsibilities**

According to Department of Youth Development Services policy, its mission is "to provide residential and educational services in a safe, secure environment appropriate for youth with behavioral problems referred by local courts and schools, while promoting personal accountability for the youths' actions with the goal to return the youth to their local community with skills to be productive members of society."

The Department's mission is carried out across three facilities.

### ***Youth Development Center***

The Youth Development Center (YDC) is an architecturally secure rehabilitative center for youth adjudicated for criminal offenses. During fiscal year 2001, 134 juveniles were committed to the YDC. Ages ranged from 12 years, 1 month to 16 years, 11 months. Average age at commitment was 15 years, 8 months. During fiscal year 2001, 82% of committed youth were male and 18% were female. When a youth is committed to the YDC, a systematic process is used to classify and assign youths to a secure residential unit where they participate in a prescribed behavioral program. The program encompasses academia, cottage life, and group sessions. Progress in all three spheres is measured using a rating system with progress regularly communicated to the youth. Program completion and ultimate eligibility for release and parole from the YDC is determined by the youth's progress in addressing identified problem areas and program goals based on assessment by the youth's Program Team. The Program Team is comprised of a unit clinical coordinator, resident house leader, youth counselor, education representative, juvenile services officer, parent or guardian, and the youth. During fiscal year 2001, the length of time for a youth to complete a rehabilitative program (from date of commitment to date of first administrative release) ranged from 5 to 12 months.



### ***Youth Detention Services Unit***

The Youth Detention Services Unit (YDSU) is a 23-bed architecturally secure detention center that houses youth up to 17 years of age who are alleged to have committed delinquent offenses and are awaiting disposition of their cases by the courts. The YDSU also detains youth wanted in other states in accordance with the provisions of the Interstate Compact on Juveniles (RSA 169-A) and juveniles awaiting completion of the certification process pursuant to RSA 169-B:28. During fiscal year 2001, the length of detention ranged from 1 to 171 days with an average period of 21 days. During fiscal year 2001, 384 youth were detained at the YDSU. Ages ranged from 9 years, 8 months to 17 years, 6 months with an average age of 15 years. During fiscal year 2001, 73% of the population was male and 27% was female. Residential staff provide for secure care and respond to youths' recreational needs. All detained youth are provided with educational services and close supervision for the duration of their stay.

### ***Tobey Special Education School***

The Tobey Special Education School (Tobey) is a specialized school for students identified as seriously emotionally disturbed and entitled to services under an Individualized Educational Plan. Students with other educational disabilities have been accepted through the cooperation of the New Hampshire Department of Education under a waiver process. Students are placed at Tobey pursuant to court orders under RSA 169-B, C, and D or by local school districts. Tobey includes a residential component as well as academic and vocational programs. Tobey accepts male and female students ranging in age from 6 to 21 years old. During fiscal year 2001, 49 students were enrolled; 32 students were residential students and 17 were day students. The average length of stay was 9.8 months with a range of 2 months to 2.3 years. During fiscal year 2001, 78% of the students were male and 22% were female. Average age at enrollment was 14 years, 8 months.

## **Funding**

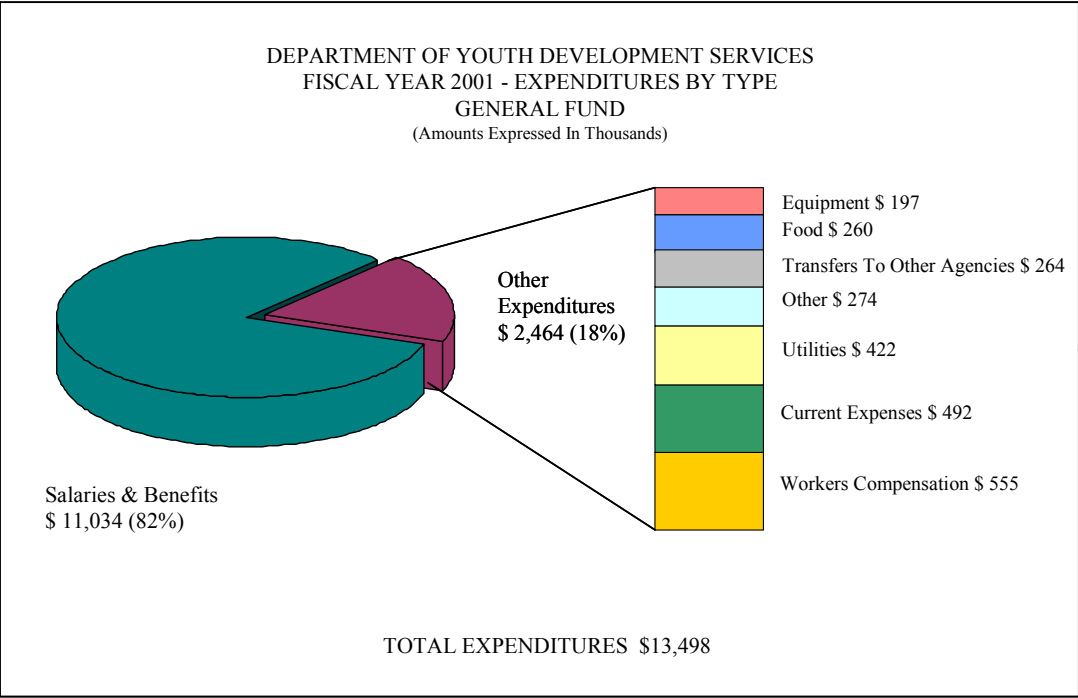
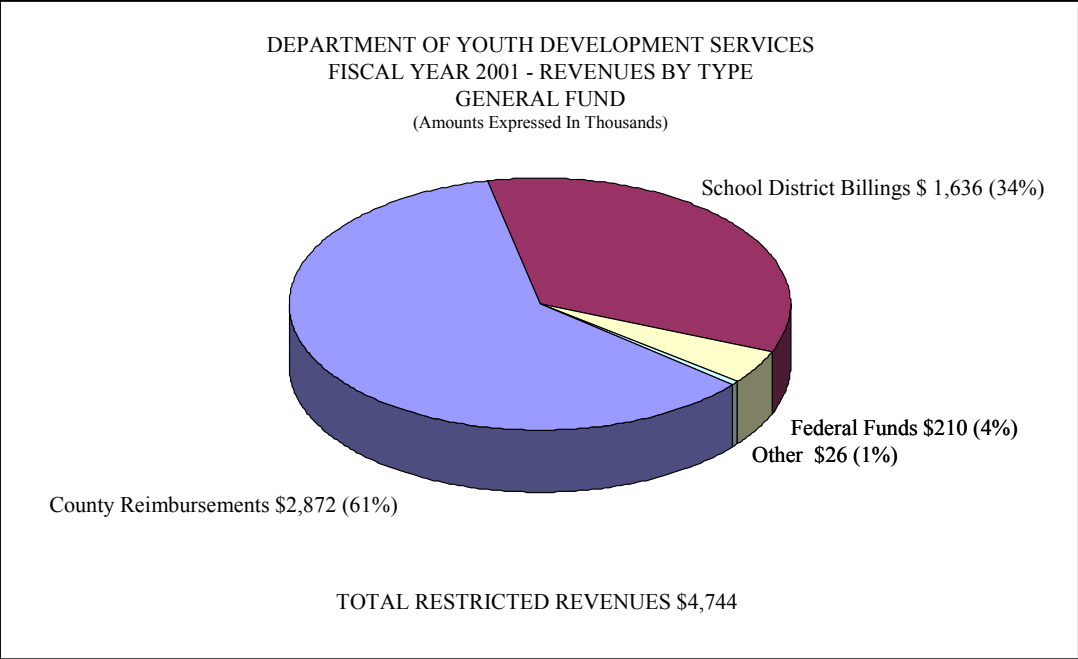
The financial activity of the Department of Youth Development Services is accounted for in the General, Special, Capital Projects, and Fiduciary Funds of the State of New Hampshire. A summary of the Department of Youth Development Services General Fund revenues and expenditures for the fiscal year ended June 30, 2001, are shown graphically on page 4.

### **Summary Of Revenues And Expenditures**

**Fiscal Year Ended June 30, 2001**

(expressed in thousands)

	<b>General Fund</b>	<b>Special Fund</b>	<b>Capital Projects Fund</b>	<b>Total All Governmental Funds</b>
<b>Revenues</b>				
Unrestricted Revenues	\$ 43	\$ -0-	\$ -0-	\$ 43
Restricted Revenues	4,744	106	-0-	4,850
<b>Total Revenues</b>	<b>\$ 4,787</b>	<b>\$ 106</b>	<b>\$ -0-</b>	<b>\$ 4,893</b>
<b>Total Expenditures</b>	<b>\$ 13,498</b>	<b>\$ 106</b>	<b>\$ 249</b>	<b>\$ 13,853</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>\$ (8,711)</b>	<b>\$ -0-</b>	<b>\$ (249)</b>	<b>\$ (8,960)</b>



The fiscal year 2001 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$19,060,004, \$224,501, and \$1,660,946 in the General, Special, and Capital Projects Funds, respectively. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 2001 revenues of \$8,123,317 and \$219,421 in the General and Special Funds, respectively.

## **Prior Audit**

This is the first financial and compliance audit that the Office of Legislative Budget Assistant has performed on the Department of Youth Development Services. Therefore, there are no prior financial and compliance audit findings included in this audit report.

The Office of Legislative Budget Assistant issued a performance audit report, dated November 1998, titled *Juvenile Justice Organization*. The Department's evaluation of the current status of observations that relate to Department operations is located in the appendix to this report on page 77. Copies of the prior performance audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

## **Audit Objectives And Scope**

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the Department of Youth Development Services for the fiscal year ended June 30, 2001. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Department of Youth Development Services and tested the Department's compliance with certain provisions of applicable State laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and appropriations,
- Expenditures and encumbrances,
- Real property and equipment, and
- Fiduciary funds.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Department of Youth Development Services are contained in the report that follows.

## **Auditor's Report On Compliance And On Internal Control Over Financial Reporting**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Department of Youth Development Services as of and for the fiscal year ended June 30, 2001, as listed in the table of contents, and have issued our report thereon dated April 9, 2003, which was qualified with respect to the lack of presentation of the financial position of the Department in the General, Special, and Capital Projects Funds and with respect to the lack of auditable records for general fixed assets. Except as discussed in the previous sentence, we conducted our audit in accordance with audit standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Department of Youth Development Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 35 and No. 36 of this report.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Youth Development Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be

reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department of Youth Development Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 34 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the matter described in Observation No. 1 to be a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Department of Youth Development Services and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

*Office Of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

April 9, 2003

**Internal Control Comments**  
**Material Weakness**

**Observation No. 1: Real Property Records Need To Be Established And Expanded**

*Observation:*

The Department's real property records are incomplete.

The Department's financial statements report the Department's real property at a 1985 fair market value of \$10,869,657. Generally accepted accounting principles and State accounting and financial reporting policy require reporting real property at historical cost. The Department reportedly does not have historical records to establish the original cost of the real property. In addition, the Department's real property list includes a building on Lowell Street in Manchester, separate from the Department campus. The Department is unsure whether it owns the listed property. The reported fair value of the property is \$115,000.

*Recommendation:*

The Department must gain a better understanding of its real property. Either historical records need to be researched to establish the original costs of its properties or reasonable efforts need to be made to estimate their historical cost. The Department must document the determination of historical cost.

The Department must determine whether it is the owner of the separate Manchester property and document that determination.

*Auditee Response:*

DJJS concurs. DJJS concurs with the observation that at the time of the audit it needed to "gain a better understanding of its real property." Since the conclusion of the audit period, DJJS has undertaken significant efforts to address the substance of the recommendation that DJJS identify the historical cost of its real property. We note that this work was exceedingly complex because, with the exception of property on Lowell Street in Manchester, all property is part of the Youth Development Center Campus. There has been a juvenile facility on this campus since 1857 and the real estate that comprises the campus was acquired over a period of 75 years in multiple transactions. Also during that time, parcels of property owned by the State related to the YDC facility were conveyed out. As part of its work with the SB 55 Commission (The entity created pursuant to SB 55, Chapter 97 of the Laws of 2001 to under take a comprehensive review of the State's architecturally secure juvenile facilities), DJJS, with the assistance of the departments of transportation and justice, undertook a comprehensive title examination of the real property that comprises the YDC campus. As a result of this work, we have acquired copies of the source deeds for the properties that comprise the YDC campus. These deeds state the consideration paid for each parcel and thus can be used to establish the historical cost for the property. DJJS will seek further assistance required from the departments of transportation and justice to review the

existing title work and establish the historical cost of the DJJS properties, (the YDC campus and the Lowell Street property). With regard to the general comment that “The Department must gain a better understanding of its real property,” we note that as part of our work to design a new architecturally secure facility for detained and committed juveniles to be located on the grounds of the YDC campus, we have completed a comprehensive survey of the campus and will soon have a site plat/plan in recordable form that provides boundary and other critical information about the site.

**Internal Control Comments**  
**Other Reportable Conditions**

**Observation No. 2: Controls Over Rate-Setting Should Be Improved**

*Observation:*

The Department's calculations of its fiscal year 2001 per-diem rates for youth at its three facilities, the Youth Development Center (YDC), the Youth Detention Services Unit (YDSU), and the Tobey Special Education School (Tobey) are not well documented.

The Department is responsible for setting a per-diem rate to assign a uniform cost for each resident at YDC and YDSU, 25% of which is billed to the county responsible for the resident. The Department is also responsible for setting per-diems for Tobey residents and day students. School districts are billed the Tobey residential and educational per-diems except in cases of court-ordered placements. In those cases, the liability for educational costs remains with the school district and 25% of the residential care is borne by the responsible county.

The Department was able to provide only partial documentation supporting some of the cost allocation methodologies used in calculating the per-diem cost for fiscal year 2001. The available documentation indicated that historical allocation percentages were used even though updated percentages were available. The documentation of those updated percentages showed contradictory percentages calculated on the same page.

Computer spreadsheets from prior periods were used without consideration of whether the calculations on the spreadsheets remained current and appropriate. In fact, certain information on the spreadsheets was obsolete causing the resultant rates not to include consideration of a grant received by the Department and the effect of Social Security payments collected on the behalf of certain residents, as those revenue sources were not available to the Department in the year that the spreadsheet was developed.

As well as being incomplete, the documentation supporting the calculations maintained at the Department's business office appeared to be poorly organized resulting in incomplete and inconsistent responses to auditor's inquiry into cost allocation methods used by the Department.

We also noted during our review of the Department's rate setting methodology that the Department charges the same rate for special education costs for educationally disabled (ED) residents as it charges for the education costs of non-educationally disabled (non-ED) residents. While the education costs for the ED residents were the special education rates established by the New Hampshire Department of Education, the Department was unable to document that this rate was also appropriate for the base of the billings of the counties for the education costs of non-ED residents.



*Recommendation:*

The Department should improve its controls over rate setting. The Department should fully document its rate setting calculations including methodology, data used, results obtained, and management's recalculation and review and approval of rates obtained.

The methodology should be documented in detail to help ensure that it is applied as intended. Any deviation from the methodology should require review and authorization. The documented methodology should include: 1) assumptions, projections, estimates, allocations, and related bases; 2) where to obtain the necessary data sets and how to ensure that data is complete and accurate; 3) details of formulas used in the calculations; 4) timelines for initial rate-setting and subsequent adjustments, if needed; and 5) descriptions of management's review and approval processes.

*Auditee Response:*

DJJS concurs with the observation. DJJS is well aware of the lack of clarity and inadequate documentation that characterized the Department of Youth Development Services rate-setting process in SFY 01. Pursuant to legislation related to rate-setting at the institutions that passed in 2001 (HB 442, Chapter 93 of the Laws of 2001), and which became effective in December 2002 (with the certification from the Department of Administrative Services concerning county payments of past amounts due for institutional placements), DJJS and the counties have embarked on the negotiation of the memorandum of agreement (MOA) required by HB 442. A central component of the MOA will be the establishment of the rate-setting methodology and will include the components identified in the audit recommendation.

**Observation No. 3: Outstanding Board And Care Invoices Should Be Tracked**

*Observation:*

Neither the Department of Health and Human Services (DHHS) nor the Department of Youth Development Services (DYDS) has adequate policies and procedures in place to ensure that outstanding board and care invoices are tracked and followed up on in a timely manner.

DHHS prepares board and care invoices and sends them to DYDS for clerical review and forwarding to the counties. The counties review the invoices for concurrence and send the invoices back to DHHS for the generation of a bill based on the agreed-to invoice. However, the DHHS and DYDS have no mechanism in place to ensure that appropriate action is taken if the counties do not respond timely to invoices sent by the DHHS. While the Bridges system at DHHS tracks the accounts receivable outstanding based on bills sent to the counties, there is no similar system to track the issuances and counties' responses to the preliminary invoices.

Timely notice and action on invoice disagreements between the State and the counties will promote more efficient corrective actions and collection of amounts due.

*Recommendation:*

The Department, in conjunction with the DHHS, should implement policies and procedures to ensure that board and care invoices result in bills sent to the counties in a timely manner. The policies and procedures should include a tracking system that provides notice to DHHS and DYDS if counties do not concur with invoices in a timely manner.

*Auditee Response:*

DJJS concurs with the observation. As part of our efforts to improve the county billing process, we worked with staff from DHHS to develop a spreadsheet process to track board and care invoices. This process enables DJJS to follow up with the counties if they do not respond in a timely manner to the preliminary invoice. This system was developed in SFY 02 and was fully implemented by the beginning of SFY 03. We deem this matter to be fully resolved.

**Observation No. 4: Controls Over Accuracy Of Preliminary Board And Care Invoices Should Be Reviewed**

*Observation:*

The Department's controls to ensure correct per-diem rates were used on preliminary board and care invoices during fiscal year 2001 were not sufficient to ensure accurate preliminary invoicing.

Incorrect per-diem rates were noted on three (12%) of twenty-five invoices tested. In one case, the rate used on the preliminary invoice was for a juvenile receiving special education services although, according to Department personnel, the juvenile was not a special education student. In two other cases, the rate used was for juveniles not coded for special education services although, according to Department personnel, those juveniles were coded for special education services. These three cases were related to juveniles in residence at the Youth Development Center (YDC).

The Department's business office reviews and approves each preliminary invoice prior to it being sent to the respective county. The county is responsible for paying 25% of the per-diem. The county reviews the preliminary invoice for concurrence and returns it to the Department of Health and Human Services for the generation of a bill based on the agreed-to invoice. In two of the cases described above it appears the respective county detected the error because the actual amount billed and paid was based on the correct rate. The use of the incorrect rate in the remaining case was not detected.

Per-diems billed for juveniles coded for special education services differ from per-diems billed for non-coded juveniles due to the statutory assignment of liability for special education services. Per RSA 186-C:19-a, the responsible school district is liable for the educational expenses of an educationally disabled child who is placed at the YDC. The counties are not liable for special education costs.

The effect of not detecting the incorrect rate in the case noted above was a liability shift. The county paid \$4 per day more than it was responsible for and the responsible school district was not billed.

*Recommendation:*

The Department should determine whether its controls over the accuracy of the preliminary board and care invoices are adequate. The information sources used to determine the rates used on the preliminary invoices should be examined and evaluated for reliability. The control provided by the review and approval process should also be evaluated to determine whether the current process is strong enough to detect errors on the preliminary invoices at a success rate acceptable to management. Changes to process should be made accordingly and processes monitored to determine whether they are operating as management intended and produce results acceptable to management.

*Auditee Response:*

DJJS concurs with the observation. The Division has instituted new procedures effective during SFY 02 that involve a higher level of accuracy in processing preliminary board and care invoices (PBCI). The Business Office's Case Technician reviews the PBCIs and creates a spreadsheet that is forwarded with copies of the PBCIs to the Accountant I. The Accountant I compares the PBCIs to the Detailed County Billing Report. Any discrepancies found are reported back to the Case Technician for research and resolution. The Financial Manager is notified of any changes and the Accountant I advises the Office of Finance of the discrepancies so that they may take the necessary action to correct the invoices. Bridges personnel are notified when there is a coding error that affects the billing rate. Bridges personnel conduct their own research and notify the Case Technician of their decision to change the coding/rate if found necessary. The Accountant I is informed by the Case Technician of any changes made. Bridges personnel then generate an adjustment to the County Bill to ensure that the county is paying the correct rate for the juvenile involved. This item is deemed to be fully resolved.

**Observation No. 5: Controls Over School District Billings Should Be Reviewed**

*Observation:*

The Department did not have controls in place to ensure school district billings were complete and included all students for which a school district was responsible.

A sample of fifteen juveniles residing at the Youth Development Center (YDC) was tested to determine whether school districts were billed for any applicable special education services provided at YDC. Testing revealed that three of the four juveniles in the sample receiving special education services at YDC were properly included in school district billings. One of the four juveniles receiving special education services was not included in the tested monthly bill to the respective school district. The juvenile absent from the tested monthly bill was included in the next month's bill, although the prior month's services remained unbilled.

In accordance with RSA 186-C:19-a, II, the responsible school district is liable for the educational expenses of an educationally disabled child in the youth development center. The per-diem billed to the school districts is set by the New Hampshire Department of Education and for fiscal year 2001 it was \$33.95.

*Recommendation:*

The Department should review its controls over the completeness of its school district billings to determine whether the results of those control procedures are acceptable to management. Information sources for the monthly school district billings and the billing review and approval process should be examined to determine whether the sources and process consistently support accuracy and completeness in billing.

*Auditee Response:*

DJJS concurs with the observation. Beginning in FY 03 a new procedure was implemented. Information sources for the monthly school district billings are now coming directly from the Special Needs Coordinator (SNC) at the YDC School. The monthly billing list provided by the SNC is then matched to the County Billing List to ensure that all students are accounted for. The YDC School is now responsible for correct billing dates. The billing review process is done by matching the invoices to the items on the list. This item is deemed to be fully resolved.

**Observation No. 6: School Districts Should Be Billed For Special Education Costs Of Youth Detention Services Unit Residents**

*Observation:*

The Department has not established comprehensive policies and procedures for billing educational costs to school districts.

Per RSA 186-C:19-a, the applicable school district is liable for educational expenses of an educationally disabled child who is placed at the Youth Detention Services Unit (YDSU) while awaiting disposition of the courts.

The Department bills the school districts for the educational expense of the educationally disabled residents at the Youth Development Center (YDC) and the students at the Tobey Special Education School, but does not bill the school districts for the educational expenses of the educationally disabled residents at the YDSU. The responsible county is billed 25% of the YDSU per-diem. The effect of not billing the school districts and not adjusting the YDSU per-diem for special education costs, shifts 25% of the liability for special education costs to the county, a party not responsible for special education costs per RSA 186-C:19-a.

Per the Department's business office, school districts are not billed for special education costs for YDSU residents, as it is the Department's view that residents are only at the YDSU for a short period of time, an average of eight days in the estimation of the business office. According

to Department data, actual average time for youths to remain at YDSU during fiscal year 2001 was 21 days and ranged from one to 171 days. Approximately 54% (207) of the 384 youths detained at the YDSU during fiscal year 2001 were identified as having an educational disability.

There were no policies and procedures at the Department that addressed billing special education costs for residents at the YDSU.

*Recommendation:*

The Department should establish and implement policies and procedures covering the billing of special education costs for residents of the YDSU. The policies and procedures should be in compliance with State statute. If the Department determines that the statutes are not responsive to the needs of the Department and require an inefficient billing practice, the Department should request a change in statute.

*Auditee Response:*

DJJS concurs with the observation. All residents at the YDSU attend school from their first day of stay. YDSU staff is already performing a significant amount of work to verify the educational status of each child, and to obtain and implement Individual Education Plans where applicable. RSA 186-C:19-a does establish that the applicable school district is liable for special education costs, and most school districts anticipate being charged for educationally disabled children who are detained at YDSU. Based on the FY03 YDSU census, an initial financial analysis indicates that if 50% of the residents were coded, school districts would be liable for nearly \$55,000 of the special education costs delivered, offsetting county charges by almost \$17,500. DJJS staff is currently developing policy and procedures to enable us to begin billing school districts for special education costs of YDSU residents effective with the school year that begins in September 2003.

**Observation No. 7: Payroll Expenditure Budget Control Process Should Be Observed**

*Observation:*

The Department avoided the salary adjustment fund process provided for in RSA 99:4 to obtain funding for payroll accounts that were short appropriations and charged payroll to improper payroll accounts where excess funding existed.

RSA 99:4 provides that excess funding in personnel accounts is to be transferred to the salary adjustment fund and amounts in the fund are to be available for transfer to departments and accounts where amounts are deemed necessary. Transfers require the approval of the Department of Administrative Services, Division of Personnel and the Governor and Council.

During fiscal year 2001, the Department did not regularly use the provisions of RSA 99:4 to obtain funding for payroll accounts that were short appropriations. In order to cover the payroll,

the Department, at times, charged or transferred certain payroll expenditures to other unrelated payroll accounts that had excess appropriations.

The effect of this inaccurate allocation of expenditures to payroll accounts was to bypass the payroll transfer approval process and to incorrectly report payroll expenditures in the State accounting system (NHIFS).

*Recommendation:*

All expenditures including payroll should be charged to the appropriate budgeted accounts. The Department should consistently adhere to the provisions of RSA 99:4 when payroll appropriations are not sufficient. All Department expenditures should be subject to the State's control processes. No expenditures should be charged to inappropriate accounts for expediency purposes, bypassing controls.

*Auditee Response:*

DJJS concurs with the observation. The inaccurate allocation of expenditures to payroll accounts was authorized by the Business Administrator at that time. This practice has not occurred since the LBA auditors made the Business Office aware of their concerns. We note that following the creation of DJJS within the Department of Health and Human Services our management of excess funding in personnel accounts has been governed by the interpretation of certain DHHS budget provisions provided by the Department of Administrative Services. We deem this matter to be fully resolved.

**Observation No. 8: Controls Over Consumable Inventory Should Be Improved**

*Observation:*

There are significant weaknesses in the Department's consumable inventory procedures.

The Department does not have proper segregation of duties over incompatible inventory responsibilities, physical security over the storage and issuance of inventory, required documentation and other record keeping, and policies and procedures to ensure that consumable inventory is purchased based on established needs criteria and other good purchasing practices.

At June 30, 2001, the Department reported that it had \$71,500 of consumable inventory on hand. Due to the Department's lack of a sufficient consumable inventory accounting and control system, the Department was unable to report its purchases and issuances of consumable inventory during the fiscal year ended June 30, 2001.

*Recommendation:*

The Department should improve its controls over its consumable inventory. Specifically, the Department should:

- Properly segregate incompatible functions of transaction authorization, custody of assets, and recording and reporting transactions.
- Increase physical security over the storage and issuance of consumable inventory. The doors to the stockroom should be locked when the stockroom is left unattended. Keys to the stockroom should be controlled to ensure that only authorized employees have access to the storeroom in the steward's absence. All inventory issued from the stockroom should be appropriately recorded on the inventory records.
- Comply with Department of Administrative Services procedures that require accounting for consumable inventory with a perpetual-inventory recordkeeping system including tracking and reporting balances, purchases, and issuances on an average cost basis.
- Develop policies and procedures to assist in the establishment of proper balances of inventory to maintain on hand. The policies should consider and balance the cost of storage, efficient purchasing levels, and other factors that impact the decision to purchase inventory.

*Auditee Response:*

DJJS concurs with the observation and the recommendations. The Division has begun the process of reviewing the Department of Administrative Services' procedures regarding accounting for consumable inventory. Following this review we will develop procedures and policies to ensure proper internal controls. Our expected date of complete implementation is November 1, 2003.

**Observation No. 9: Maintenance And Utilization Of Purchasing Documents Should Be Improved**

*Observation:*

The Department's purchasing policies and procedures do not require the material requisition form P-1 to be forwarded to accounts payable prior to payment of the associated invoice.

Current policies and procedures require a form P-1, approved by the requisitioning department head, to initiate the purchasing of supplies or equipment. The agency steward prepares a requisition document or a field purchase order and forwards the documents to the business office for approval. The documents are returned to the steward. Upon the delivery of the purchased items, the steward forwards the requisition or field purchase order and a completed receiving report to the accounts payable section of the business office. Because the accounts payable section does not receive a copy of the P-1, the business office does not have ready access to information establishing accountability for who initially requested and approved the purchase. The P-1 file maintained by the steward is not in a form that makes business office access to that information efficient; in fact, P-1 documents could not be located for five out of a sample of nine (56%) tested expenditures.

*Recommendation:*

The Department should consider revising its purchasing policies and procedures to require a copy of the P-1 form to be forwarded to and filed with the other purchasing documents in the Department's business office.

*Auditee Response:*

DJJS concurs with the observation. DJJS has revised its purchasing procedures as described below to require a copy of the P-1 form to be forwarded to and filed with the other purchasing documents in the Business Office. Each and every item requested for purchase requires a P-1 form approved by the requisitioning department head. The Agency Steward prepares a requisition document or a Field Purchase Order (FPO) and forwards that document along with the P-1 form to the Business Office for approval. Once approved, the documents are returned to the Steward. Upon delivery of the purchased items, the Steward forwards the requisition or FPO with a copy of the P-1 and a completed receiving report to the Accounts Payable section of the Business Office to process for payment. All documents are kept as backup with the payment vouchers in the Business Office. We deem this matter to be fully resolved.

**Observation No. 10: Controls Over The Issuance Of Gasoline Should Be Improved**

*Observation:*

There are significant weaknesses in the Department's gasoline pump procedures at its Manchester site.

The Manchester campus has a gasoline pump to provide fuel for Department vehicles. The fuel pump is unlocked during business hours and available for employee use. The pump is locked at night and on weekends; however, the issuance of keys for after-hours use of the pump is not tracked or documented. Fuel issuances are not automatically tracked. Users of the pump are required to complete an MV-5 form which, when accurately completed, reports the beginning meter reading, the gallons pumped, and the ending meter reading.

Access to the gasoline pump is not adequately controlled. Because the pump is unlocked and generally unattended during the day, it is possible for a user to access fuel inappropriately during business hours. In addition, because access to the pump keys is not logged or tracked, it may not be possible to establish accountability for fuel pumped inappropriately after business hours or on weekends. This risk of inappropriate access to fuel is compounded by employees' inconsistent completion of MV-5 forms. Often, the beginning meter readings are not completed on the forms. Because of this missing data, accountability for missing fuel may not be determinable.



*Recommendation:*

The physical controls over the gasoline pump should be improved. The Department should consider keeping the gasoline pump locked when unattended to prevent inappropriate access to the pump. Keys to the pump should be tightly controlled. In addition, users of the gasoline pump should be required to completely fill out the MV-5 or other appropriate form that will establish accountability over gasoline usage. The MV-5 documents should be periodically reviewed to ensure that all gasoline is accounted for.

*Auditee Response:*

DJJS concurs with the observation. We concur that access controls and reporting can be improved, and have made the following changes in response to the audit observations. We believe these changes fully address the concerns and implement the recommendations. First, during normal weekday business hours, the pump will be locked when staff working in the maintenance garage is not present. The improved reporting described in the following sentence will further enhance the security and accountability. After hours and on weekends, the only access to the pump key is from operations. We have improved the record keeping in operations and now require operations to keep a log of the individual to whom the key is given (and the vehicle) and to record the return of the key. Finally, the MV-5 forms have been modified so that the “beginning meter reading” is highlighted and the directions emphasize the requirement that all highlighted areas must be completed.

**Observation No. 11: Use And Effectiveness Of Appropriation Ledgers Should Be Reviewed**

*Observation:*

Appropriation ledgers used by the Department during fiscal year 2001 were not reconciled timely to the State’s accounting record making the appropriation ledgers an ineffective control process.

The Department maintains an appropriation ledger for each organization and class line of the State’s accounting system (NHIFS). The Department reportedly uses the ledger to assist in its monthly reconciliations of source transaction documentation to NHIFS. This reconciliation is required by State accounting policy.

During fiscal year 2001, the Department was not consistent in its reconciliation of the ledgers to NHIFS. In a sample of expenditures tested, it was noted that some reconciliations had not been performed and those that had been performed were not timely, as they were completed between six and thirteen months after the NHIFS report date. Because the reconciliations were not performed on a timely basis, their effectiveness as a control to detect errors or frauds was greatly diminished.

It is not clear that the Department needs to maintain appropriation ledgers for its reconciliation process. Many State departments and agencies are able to perform NHIFS reconciliations

without the use of appropriation ledgers. The completion, reconciliation, and use of appropriation ledgers is an added burden on the Department's business office and is an inefficient and, if not done timely, an ineffective control process.

*Recommendation:*

The Department should review the necessity and effectiveness of preparing appropriation ledgers to assist in its NHIFS reconciliation process. If the Department continues to use the appropriation ledgers, it needs to devote the resources necessary to ensure that the ledgers are completed, reconciled, and reviewed in a timely manner. If the Department is not able to devote the needed resources, or if the Department determines that the use of the ledgers is no longer an efficient and effective control process, the Department will need to ensure there are other processes in place to effectively review the monthly NHIFS reports as required by State accounting policy.

*Auditee Response:*

DJJS concurs with the observation and the recommendations. The Division will assess the efficacy of the Appropriation ledgers to determine the best way to reconcile to the NHIFS system. If it is determined that the ledgers are no longer efficient or effective, the Financial Manager and the Accountant III will develop a new process for reconciliation. The Division anticipates completion of this assessment and development by November 1, 2003.

**Observation No. 12: Use And Effectiveness Of Federal Grant Worksheets Should Be Reviewed**

*Observation:*

Federal grant worksheets used by the Department during fiscal year 2001 were not reconciled timely to the State's accounting system (NHIFS) making the grant worksheets an ineffective control process.

The Department maintains federal grant worksheets to track the available funds in each grant project. The Department reportedly uses the worksheets to record the grant related expenditures from Department payment and journal vouchers and reports the expenditures periodically to the pass-through grantor agency. Grant revenues to the Department are based on the reported expenditures.

During fiscal year 2001, the Department was not consistent in its reconciliation of the federal grant worksheets to NHIFS. In a review of the federal grant worksheets, a difference between expenditures reported in the federal grant worksheets and expenditures reported in NHIFS was noted in two of the five federal programs active during fiscal year 2001. Because reconciliations were not performed, the effectiveness of the worksheets as a tool to report accurate financial activity was greatly diminished.

It is not clear that the Department needs to maintain federal grant worksheets to account for its federal grant activity. Many State departments and agencies are able to use NHIFS reports to account for, and as a basis for financial reporting, federal grant activity without the use of grant worksheets. The completion, reconciliation, and use of grant worksheets is an added burden on the Department's business office and is an inefficient and, if not done timely, an ineffective reporting and control process.

*Recommendation:*

The Department should review the necessity and effectiveness of preparing federal grant worksheets to track and report grant activity. If the Department continues to use the federal grant worksheets, it needs to devote the resources necessary to ensure that the worksheets are completed, reconciled, and reviewed in a timely manner. If the Department is not able to devote the needed resources, or if the Department determines that the use of the worksheets is no longer an efficient and effective reporting and control process, the Department will need to ensure there are other processes in place to effectively review and report the financial grant activity.

*Auditee Response:*

DJJS concurs with the observation. The Division will assess the efficacy of the federal grant worksheets to determine the best way to reconcile to the NHIFS system. If it is determined that the worksheets are no longer efficient or effective, the Financial Manager and the Grants Manager will develop a new process for reconciliation. The Division anticipates completion of this assessment and development by November 1, 2003.

**Observation No. 13: Excess Cash Should Be Deposited**

*Observation:*

The Department does not consistently deposit receipts to its campus store and Youth Services Center Youth Benefits Fund and Recycling Account in a timely manner.

RSA 6:11, II requires that if more than \$100 is in the possession of any State department or institution, such funds shall be on deposit in a bank account. This statute is generally regarded as requiring daily deposits of accumulated receipts unless accumulated receipts are clearly insignificant. As noted below, the Department is not following the requirement of RSA 6:11, II in establishing the frequency for deposits for its fiduciary accounts, increasing the risk that undeposited receipts may be lost or stolen and that the interest earnings of the accounts will not be maximized.

- The stated deposit policy for the campus store is to deposit cash and check receipts on a weekly basis. During fiscal year 2001, while the average number of calendar days between deposits was nine, there were 16 deposits where the interval between deposits was ten days or more. The average amount of a deposit during fiscal year 2001 was \$735.

- Deposits for the Youth Services Center (YSC) Youth Benefit Fund and YSC Recycling Account are made weekly or biweekly depending on activity. Total deposits to the Youth Benefit Fund and Recycling Account during the fiscal year ended June 30, 2001, were approximately \$3,000 and \$8,700, respectively.

*Recommendation:*

The Department should establish policies and procedures to ensure that the deposit practices of its fiduciary funds are deposited in accordance with State statute and minimize custodial risk and maximize interest earnings.

*Auditee Response:*

DJJS concurs with the observation. The Division's Business Office sent out a memo on May 1, 2003 to all concerned individuals. The memo included a copy of RSA 6:11 (II) to remind employees of their responsibilities in making timely deposits. This memo serves as the official procedure requiring deposits be made each time there is more than \$100 in our possession, or at least once every seven calendar days if there is not more than \$100 in our possession. This corrective action is effective the date of the memorandum, May 1, 2003.

**Observation No. 14: The Department Should Increase Its Understanding Of Amounts Due Under The National School Lunch And School Breakfast Programs**

*Observation:*

The Department does not test amounts received as reimbursement under the National School Lunch and School Breakfast Programs to establish whether the amounts collected are accurate.

The Department business office completes and submits a claim for reimbursement on a form that elicits a meal count but does not record a rate per meal. In addition, when asked, the business office was unaware of the current per-meal reimbursement rates. Without knowing the reimbursement rates, the business office cannot be reasonably certain the amount collected for the meal subsidy program is accurate, increasing the risk that an error in the reimbursement would not be detected and corrected in a timely manner.

*Recommendation:*

The Department should gain a better understanding of the National School Lunch and School Breakfast Programs. Understanding the current rates will allow the business office to recalculate the anticipated revenue amounts to ensure that the reimbursements are appropriate. Amounts collected from the programs should be compared to the amounts anticipated and any differences researched and resolved.

*Auditee Response:*

DJJS concurs with the observation and the recommendations. DJJS will contact the N.H. Department of Education (DOE), Division of Program Support, Bureau of Nutrition Programs and Services to obtain the annual reimbursement rates. When the Business Office receives the monthly reimbursement totals from DOE, the Accountant or designee will examine the reimbursement totals to verify that the correct reimbursement rates are being used and to reconcile the revenue received. This corrective action was taken with revenue for the month of May 2003. We deem this matter to be fully resolved.

**Observation No. 15: Monitoring Of Controls Over The Department's Acceptance Of Gifts And Donations Should Be Improved**

*Observation:*

The Department did not submit \$1,450 of monetary donations to the Department's Special Projects Fund to the Governor for formal acceptance or formally acknowledge the donations.

According to RSA 4:8, all gifts or other expenditures by third parties in support of State operation, unless otherwise authorized by statute, should be placed before the Governor for acceptance. Generally, the authority to accept gifts on behalf of the State pursuant to RSA 4:8 has been delegated by the Governor to the Governor and Executive Council. In addition, according to the Department's Policy and Procedure Manual, policy TDO-1-B-02 Juvenile, Cottage, and Other Funds, the names and addresses of donors are to be submitted to the Administrative Assistant so that the donation may be acknowledged.

The lack of formal acceptance and acknowledgement of the donations during fiscal year 2001 was reportedly due to management oversight.

*Recommendation:*

The Department should improve its monitoring of controls over the acceptance of gifts and donations. All gifts and donations received by the Department should be submitted for acceptance and acknowledgement as required by State statute and Department policy.

*Auditee Response:*

DJJS concurs with the observation and the recommendations. The Assistant Director for Program has established controls and sent out a memo to all staff outlining the procedures for acceptance of gifts and donations. The Administrative Assistant is responsible for the letter of formal acceptance and acknowledgement, as well as, informing the Accountant III of the donation. The Accountant III is responsible for submitting said gifts and donations for acceptance and acknowledgement as required by State statute. This corrective action was completed in February 2003. We deem this matter to be fully resolved.

**Observation No. 16: Contributions Towards Retiree Health Care Costs Should Be Based On Actual Funding Percentages**

*Observation:*

Through a combination of misunderstanding and oversight, the Department did not make its appropriate contribution toward the cost of retiree healthcare premiums during fiscal year 2001.

Three of the Department's quarterly retiree healthcare premium contributions paid to the Department of Administrative Services were based on inaccurate funding mix percentages resulting in an undercontribution of approximately \$44,000. In addition, because the Department reportedly did not receive an invoice for the fourth quarter of fiscal year 2001, it neglected to make its final contribution of \$45,000 for the year.

*Recommendation:*

The Department should review its procedures for calculating its contributions toward retiree healthcare premium costs. Consideration should include all non-general fund funding sources available to the Department. The Department should use the source of funds percents established in the budget process, or establish the necessity for, and document, any variations from those rates.

The Department should review the status of accounts at year-end to ensure that all appropriate bills are paid. The reasons why scheduled and budgeted transactions have not occurred should be researched and resolved to ensure that financial activity for the accounting periods is complete.

*Auditee Response:*

DJJS concurs with the observation. We note that, since the creation of DJJS within Department of Health and Human Services in September 2001, the calculation of our contributions toward retiree health care premium costs, including the determination of source of funds, has been done by the DHHS Reporting and Analysis Unit. We deem this matter to be fully resolved.

**Observation No. 17: Controls Over Petty Cash Should Be Reviewed And Monitored - YSC**

*Observation:*

The Department does not monitor its controls over the Youth Services Center (YSC) petty cash account to ensure the controls designed by the Department management are in place and operating as intended.

The YSC petty cash account is maintained at a \$200 balance. The YSC uses Petty Cash/Allotment Use forms to document and support the authority for disbursements of petty cash. The forms are intended to be approved and signed by supervisors and provide a dollar value for the amount to be disbursed. In a sample of three petty cash reimbursements it was

noted that all three reimbursements included at least one error on the 10 to 15 Petty Cash/Allotment Use forms that were contained in each reimbursement. Errors included one missing form, three forms missing authorizing signatures, and one form missing both the requester and authorizing signature. It was also noted that the amounts of the disbursements on occasion were more than the authorized amount, and the custodian of the account occasionally changed the authorized amount to equal the amount of the disbursement.

*Recommendation:*

The Department should review its control procedures over the YSC petty cash account to ensure that the controls intended by the use of the Petty Cash/Allotment Use forms continue to be appropriate for the operation of the account. If appropriate, the Department should better monitor the operation of the account and the completion of the Petty Cash/Allotment Use forms to ensure that the approvals for all expenditures are documented on the forms and amounts are limited to the amounts approved. The forms should not be altered after being approved unless the alteration has also been approved. In order to provide for minor variations from the approved amounts, the Department may want the forms to document approval of a price range such as an amount plus or minus a certain percent.

*Auditee Response:*

DJJS concurs. We concur that the controls over the YSC petty cash should be reviewed and monitored. In response to this observation, on or before August 30, 2003 the Business Office will issue a memo to the concerned parties to remind them of the proper use of the Petty Cash/Allotment Use form. This memo will reemphasize the importance of the form being fully completed with accurate information and all appropriate signatures. The Business Office will then monitor compliance and take corrective action when warranted.

**Observation No. 18: Increased Controls Should Be Exercised Over The Recycling Program Checking Account**

*Observation:*

The Department does not monitor to ensure that certain controls related to the Special Education Recycling Program checking account such as reconciliations and the requirement for appropriate and accurate documentation to support disbursements are adhered to.

An employee at the Youth Services Center is responsible for preparing student recycling program payrolls from the recycling program checking account. Weekly, the employee uses student timesheets to prepare an invoice that is submitted to the Department's business office to reimburse the recycling program checking account for the payroll. Department management does not review student timesheets nor does it reconcile the amount disbursed from the program checking account per the automated check register to the amount requested for reimbursement.

*Recommendation:*

The Department should exercise increased controls over the Special Education Recycling Program checking account. Management in the Department business office should periodically review account reconciliations and documentation supporting the reconciliations, to ensure that the account is operating as intended and errors are detected and corrected in a timely manner.

*Auditee Response:*

DJJS concurs with the observation. The Business Office will outline in writing to the Director of Education the following procedures:

1. The Recycling Program staff will forward the timesheets of the students to the Business Office at the end of every month.
2. A staff member in the Business Office will review and reconcile the timesheets to verify the accuracy of the payments made to the students.
3. The Business Office staff will ensure the accuracy of the invoices submitted to Accounts Payable for reimbursement to the Recycling Program.
4. On a monthly basis, the Accountant III will review the checks written while in the process of reconciling the bank statement.

The Division anticipates the implementation of these procedures to be in effect by September 30, 2003.

**Observation No. 19: Controls For Reporting Commuter Use Of Department Vehicles Should Be Established**

*Observation:*

The Department has not established policies and procedures to track and report the commuter use of Department vehicles.

Code of Federal Regulations Title 26, Part 1, Section 61-21, requires that the value of the commuting use of an employer-provided vehicle be included in the determination of the employee's gross income. The Department of Administrative Services requires agencies to report annually the number of days each State employee used a State vehicle to travel from home to work. During fiscal year 2001, the Department reported the Commissioner's commuting use of a Department vehicle but did not report any other employee commuter use of vehicles. According to the Department's operations officer, employees occasionally but infrequently use Department vehicles for personal commuting.

*Recommendation:*

The Department should establish controls, including appropriate policies and procedures, for tracking and reporting employee commuter use of Department vehicles, including infrequent use.



*Auditee Response:*

DJJS concurs. We concur that DJJS does not have written policy/procedure related to commuter use of Department vehicles and will develop an appropriate policy. In concurring we note that, even without policy, the observation indicates that the Department of Youth Development Services filed the required report with the Department of Administrative Services in SFY 01.

We note that “personal commuting” which relates to work activities, and defined under the federal tax code as “commuting,” is occasionally approved when it benefits DJJS financially. For example, an employee living in Concord who has to travel to Hanover for a morning meeting may drive a State vehicle home the evening before so that he/she can leave directly from Concord rather than drive from Concord to Manchester to pick up a State vehicle and then travel to Hanover.

**Observation No. 20: Purpose And Use Of Special Project Accounts Should Be Determined**

*Observation:*

The Department reports that it is trustee of approximately 10 special project accounts, with a June 30, 2001 combined balance of approximately \$2,300, for which it does not know the purpose or proper uses of the accounts.

*Recommendation:*

The Department should determine the purpose and appropriate uses of all special project accounts. All special project accounts that are established by the Department must be properly documented including the source of funds to be deposited to the account, the proper uses of the money, and the methods and procedures that will be used to deposit and expend balances in the account.

*Auditee Response:*

DJJS concurs with the observation. The Division will ask its legal counsel to review the provisions that govern its special project accounts to determine the proper use and management of these accounts. This matter will be resolved by December 31, 2003.

**Observation No. 21: Claims For Federal School Meals Programs Support Should Be Based On Accurate Meal Counts**

*Observation:*

The monthly meals served claims submitted by the Department for participation in the National School Lunch and School Breakfast Programs are not supported by accurate meal counts and therefore are not in accordance with the requirements of the federal programs.

In order for meals to be eligible for Federal program participation, the number of meals claimed must be supported by accurate meal counts and records indicating the number of meals served by category and type.

The Youth Development Center (YDC) does not establish and record meal counts to support its claim for federal assistance with meals. Meal claims are based on the month's highest day census times the number of days in the month to arrive at the number of meals served. The same number of meals is used for breakfast and lunch.

The YDC's practice of using the highest days' census to calculate the monthly number of meals served inherently overstates the actual number of meals served and over draws federal participation, unless the census remained static during the month.

The Youth Services Center does record and use accurate meal counts for breakfast and lunch served but estimates the number of students receiving an eligible snack.

*Recommendation:*

The Department should maintain accurate meal counts for each meal claimed for participation in the National School Lunch and School Breakfast Programs.

*Auditee Response:*

DJJS concurs with the observation. Breakfast and lunch claims for Youth Services Center were calculated based on accurate meal counts. However, breakfast and lunch claims at the Youth Development Center and snacks for Youth Services Center were based on the month's highest daily census times the number of days in the month to arrive at the number of meals served. The method of counting these meals was updated with the claim month of May 2003. All claims are now based on accurate meal counts. DJJS deems this matter to be fully resolved.

**Observation No. 22: Annual Reporting Of Real Property And Equipment Balances Should Be More Timely**

*Observation:*

The Department did not report its June 30, 2001 real property and equipment balances in accordance with the schedule provided for reporting by the Department of Administrative Services.

- The Department did not submit its Exhibit E (changes in real property report) for fiscal year 2001. All agencies that have previously submitted an Exhibit E are required to submit subsequent annual Exhibit E reports even if no changes in real property balances occurred during the reporting period.

- The Department did not submit its Exhibit E-1 (equipment with cost equal to, or greater than, \$10,000) for fiscal year 2001 until November 13, 2001. The Exhibit E-1 was due July 20, 2001.
- The Department did not submit its final June 30, 2001 complete inventory form P-16 until March 2002. The inventory list was due July 20, 2001.

*Recommendation:*

The Department should review and revise its real property and equipment inventory and reporting procedures to ensure that its inventory records are current and available for reporting in a timely manner for both internal Department needs and State financial reporting needs.

*Auditee Response:*

DJJS concurs with the observation. DJJS has made significant progress in FY03 to update its inventory records with the goal of accurate records and timely year-end reporting to Administrative Services. Staff have been informed of reporting procedures, and compliance has increased. DJJS complied fully with all real property and equipment inventory reporting effective with the closing of FY03.

**Observation No. 23: Controls Over Equipment Inventory Should Be Improved**

*Observation:*

The Department's equipment inventory controls are not sufficient to ensure the safeguarding and accurate accounting for equipment assets.

The Department was unable to verify the existence or disposition of six (20%) of thirty equipment items selected for testing from its equipment inventory listing. Items in question included a laptop computer, communications radio, micro recorder, calculator, hedge shears, and an external CD-ROM computer drive.

The Department does have an internal policy that requires the monthly reporting of all changes in equipment inventory (new, lost, stolen, damaged, destroyed, transferred, and surplus items). Apparently the Department did not consistently adhere to that policy as no documentation was available regarding the current location or disposition of the six items that could not be located.

Seven (29%) of the remaining twenty-four equipment items selected for testing bore no inventory tag or other identifier. Tags or other types of identifiers are required by State equipment policy, facilitate the physical inventory process, and promote accurate record keeping. The utility of unique identifiers increases in cases of multiple like-pieces of equipment, a situation not uncommon in an institutional setting such as the Department.

*Recommendation:*

The Department should review its equipment inventory policies and procedures to determine whether they are as effective as intended or need revision to ensure accurate and complete equipment controls. The Department should also determine how to increase compliance with said or revised policies.

The Department should consider the cause for the number of missing identification tags. Either more sturdy tags should be utilized or other more durable methods of equipment identification should be used.

*Auditee Response:*

DJJS concurs with the observation. The Division has already improved the accuracy of its monthly reporting of all changes in equipment inventory. The Agency Steward has made all necessary equipment forms available to all staff on-line. The Agency Steward also sends out monthly reminders to all staff to request that forms be completed and submitted timely. These changes took effect March 1, 2003.

The Division is currently exploring methods of equipment identification, which include programs and software options for bar-coding items. Our goal is to purchase and implement inventory control software within the next biennium.

**Observation No. 24: Monthly Reporting Of Changes In Equipment Balances Should Be Improved**

*Observation:*

The Department is not adhering to its and the Department of Administrative Services' policies for reporting changes in equipment balances on a monthly basis.

Per the Department's equipment policy, a form E-3 should be filed monthly with the steward reporting changes in the Department's equipment. Equipment changes would include new, damaged, stolen, lost, transferred, and surplus equipment items. N.H. Admin. Rule Adm-Pla 506.06 (expired) requires agencies to submit monthly equipment adjustment reports (form P-21) to the Department of Administrative Services, Bureau of Purchase and Property.

While the Department reported that it prepared E-3 forms for its Concord site but did not prepare E-3 forms for its Manchester site, there were no E-3 forms on file with the steward related to the fiscal year ended June 30, 2001. The Department business office did not prepare and submit fiscal year 2001 monthly P-21 forms until March 2002.

The lack of timely reporting of changes in equipment inventory increases the risk that errors or problems in the inventory may not be detected and corrected in a timely and efficient manner.

*Recommendation:*

The Department should review its internal equipment reporting policy to determine whether it continues to be appropriate. If determined appropriate, the Department should determine how to achieve compliance with said policy. If the policy is determined to no longer serve the Department's purpose, the policy should be revised or revoked.

The Department should comply with the Department of Administrative Services' equipment reporting policy to ensure that the Department and State's equipment assets are accurately reported and properly safeguarded.

*Auditee Response:*

DJJS concurs with the observation. The Division is reviewing its internal equipment controls and will determine what changes need to be made to comply with the Department of Administrative Services reporting policy. The implementation of the equipment policies and procedures, either as presently in effect or as subsequently revised, shall be completed by November 1, 2003. To address the need to improve compliance with existing policy while the review described in the preceding sentence is being completed, DJJS circulated a memo in April 2003 to all relevant staff. The memo includes a copy of the E-3 form and the equipment inventory policy to remind employees of their responsibilities. Each month a reminder will go out and the forms will be available online for staff access.

**Observation No. 25: Control Procedures Should Be Performed, With Results Reported, For Lost, Stolen, Or Damaged State Equipment**

*Observation:*

The Department does not perform and report the results of control procedures required by State policy for lost, stolen, or damaged equipment.

The Department removed \$33,000 of equipment from its June 30, 2001 equipment list that could not be located during its equipment inventory taken in the summer of 2001. There is no documentation at the Department to support whether appropriate investigations were undertaken regarding the missing or damaged equipment. Also, there was no documentation of the results of any investigations performed.

According to the Department of Administrative Services, Bureau of Purchase and Property, anytime an agency removes a lost, stolen, or damaged equipment item from its equipment records, a P-18 Discrepancy Report should be prepared and submitted to the Bureau. This report should accompany the monthly P-21 Equipment Adjustment Report. The Discrepancy Report provides for: 1) a certification by the person assigned to control the inventory, 2) an investigation by an independent person, and 3) an approval by the agency head. The P-18 provides for an official recognition by the responsible agency of the loss or damage of State equipment and that the loss or damage was investigated and appropriate action taken.

The Department also has internal policies requiring the reporting of discrepancies between equipment inventory records and the results of physical inventories (counts) of equipment items on an E-2 form. The Department did not complete any E-2 forms to document and report the equipment discrepancies resulting from the 2001 inventory.

At June 30, 2001, the Department reported its equipment inventory was valued at \$1,800,584.

*Recommendation:*

The Department should prepare and submit P-18 Discrepancy Reports for lost, stolen, or damaged State equipment as required by State policy. Appropriate Department personnel should perform all certifications, investigations, and approvals needed to complete the reports.

*Auditee Response:*

DJJS concurs with the observation and recommendation. DJJS is reviewing its internal equipment controls and will determine what changes need to be made to comply with the Department of Administrative Services reporting policy. The implementation of the equipment policies and procedures, either as presently in effect or as subsequently revised, shall be completed by November 1, 2003. To address immediate concerns about compliance while the review described in the preceding sentence is completed, DJJS circulated a memo in April 2003 to all relevant staff. The memo includes a copy of the P-18 Discrepancy Report and the equipment inventory policy to remind employees of their responsibilities. Each month a reminder will go out and the forms will be available online for staff access.

**Observation No. 26: Controls Over Surplused Property Should Be Improved**

*Observation:*

The Department does not consistently review Declaration of Surplus Property (P-11) forms to ensure that equipment intended for surplus has been received by the State's surplus property program.

During fiscal year 2001, the Department brought \$89,545 of equipment to the Department of Administrative Service, State Surplus, White Farm for surplus. None of the Declaration of Surplus Property (P-11) forms that accompanied the equipment were returned to the Department's business office for review to ensure that the equipment was effectively transferred to the White Farm.

The Department's lack of a timely review of P-11 forms for evidence of White Farm receipt of surplus equipment increases the risk that equipment intended for surplus that is misdirected will not be detected.

*Recommendation:*

The Department should establish procedures to ensure that there are appropriate controls over the surplusing of equipment, including consistently reviewing P-11 surplus property forms for evidence of White Farm acceptance of the surplus equipment. The review of the forms should be properly segregated from the responsibilities for custody and delivery of the equipment.

*Auditee Response:*

DJJS concurs with the observation. DJJS has established procedures that require a copy of the P-11 to be given to a designated member of the Business Office staff prior to delivery of property to White Farm. It will be the responsibility of this staff member to ensure that the property was accepted and assigned a document number at White Farm. This procedure was implemented April 17, 2003.

**Observation No. 27: Controls Over Campus Store Operations Should Be Improved**

*Observation:*

The Department did not adequately monitor its Campus Store operations to ensure that the store and related training programs operated in a controlled manner during fiscal year 2001.

The Campus Store operations provide a training environment for the residents and include a convenience store, automotive and woodworking shops, and the Campus Edge restaurant on the Manchester campus grounds. The Campus Store operations reported sales of \$30,000 and purchases of \$33,000 for the fiscal year ended June 30, 2001. The Campus Store account, authorized by RSA 621:30,V, is maintained in a local bank checking account and is accounted for outside of the State's centralized accounting system.

The following internal control weaknesses were noted in the Department's Campus Store operations:

- The Department did not have controls in place to prevent the premature disposal of its Campus Store accounting records and supporting documentation. The Campus Store's income and disbursement ledger, invoices supporting purchases, and bills for goods or services provided by Campus Store operations were not available for review and audit because Campus Store personnel disposed of the records and support shortly after the end of the fiscal year.
- Disbursement controls were bypassed. Campus Store checks require a dual signature. A dual signature requirement is typically used to strengthen controls over disbursements. However, in the case of the Campus Store checking account, the checks were pre-signed with one of the two required signatures, negating the control provided by dual signature.
- Consumable inventory records were not maintained.

- Inventory levels of goods and supplies, including purchasing activities and materials/goods usage rates were not monitored by persons independent of custodial, purchasing, and receiving activities.
- No controls were evident that would ensure goods purchased through the Campus Store checking account were limited to those used in Campus Store operations.
- There were no written pricing policies for the goods and services offered by the Campus Store operations.
- Infrequently, the Campus Store program administrator writes off accounts receivable as uncollectable due to an inability to collect payments from terminated employees or others. There are no Department of Youth Development Services policies and procedures addressing the writing off of outstanding accounts from the Campus Store program accounts.

*Recommendation:*

The Department should improve its controls over Campus Store operations and periodically monitor the effectiveness of controls to ensure those controls are adequate and functioning as intended and support management's goals and objectives. In addition, controls should be instituted to ensure:

- accounting records and related documentation are retained in accordance with State record retention guidelines;
- the disbursement approval process operates as management intended;
- consumable inventory records are maintained and inventory levels are reasonable based on purchases and uses;
- purchases are for the benefit of Campus Store operations;
- prices for goods and services offered through Campus Store operations or the pricing methodology used is based in written policy and approved by management; and
- adherence to appropriate policies and procedures, including segregation of duties, for the review and writing off, when necessary, of accounts receivable in the Campus Store program accounts.

The Department should evaluate the cost versus benefit of accounting for Campus Store operations in the State's centralized accounting system. Using the State system could provide increased controls over Campus Store transactions.

*Auditee Response:*

DJJS concurs with the observation. Immediate action was taken on the issue of checks being pre-signed. Campus Store personnel must now request checks from the Business Office each time a bill needs to be paid rather than keep the checks in their possession. Also addressed immediately was the maintenance of accounting records and related documentation. These items are now being held in the Business Office in accordance with State record retention guidelines. To address the issues on inventory records, purchases and pricing methodology a meeting will be set



up with the Division's Financial Manager and appropriate Campus Store management to develop and implement Campus Store operations policies which address each of these issues. This task will be completed by December 31, 2003.

We concur that policy and procedures should be established for writing off accounts receivable for Campus Store accounts. The DJJS Financial Manager will work with the Campus Store management to review the controls and assign duties that will comply with the Department of Administrative Services' internal control requirements. Campus Store operational policies will be developed in accordance with this audit. This task will be completed by December 31, 2003.

### **Observation No. 28: Controls Over Fast Break Operations Should Be Improved**

#### *Observation:*

The Department did not have controls in place to promote effective and efficient purchasing, holding and utilization of consumable inventory in its Fast Break operations.

Fast Break is a vocational food service program offered at the Tobey Special Education School located at the Department's Concord site. Fast Break operations reported sales of \$45,000 and disbursements of \$46,000 for the fiscal year ended June 30, 2001. The Fast Break account, authorized by RSA 621:30,V, is maintained in a local bank checking account and is accounted for outside of the State's centralized accounting system.

The following internal control weaknesses were noted in the Department's Fast Break operations:

- Consumable inventory records were not maintained.
- No policies and procedures were noted to ensure inventory is purchased based on established needs criteria and other good purchasing practices.
- Inventory levels of goods and supplies, including purchasing activities and materials/goods usage rates were not monitored by persons independent of custodial, purchasing, and receiving activities.
- Prices charged for food items were established several years ago and have not been reviewed to determine whether those historical prices remain appropriate.

#### *Recommendation:*

The Department should improve its controls over Fast Break operations and periodically monitor the effectiveness of controls to ensure those controls are adequate, functioning as intended and support management's goals and objectives. In addition, controls should be instituted to ensure:

- consumable inventory records are maintained;

- inventory is purchased based on established needs criteria and other good purchasing practices;
- inventory levels are reasonable based on purchases and uses; and
- food prices are reviewed and pricing policies developed.

The Department should evaluate the cost versus benefit of accounting for Fast Break operations in the State's centralized accounting system. Using the State system could provide increased controls over Fast Break transactions.

*Auditee Response:*

DJJS concurs with the observation. In practice, progress has been made regarding the accounting for consumable inventory records with the closing of FY03. This set of consumable items was fully accounted for by an employee of the DJJS Business Office who is independent from the Fast Break operations. The Financial Manager will be meeting with Education and Tobey School staff to develop policies regarding Fast Break operations. This shall be conducted by December 31, 2003.

**Observation No. 29: Segregation Of Duties Over The Fast Break Food-Services Checking Account Should Be Improved**

*Observation:*

There is a lack of segregation of duties over the Fast Break checking account. The Fast Break coordinator is the custodian of the account, a signatory on the account, and also reconciles the account. Department management employees independent of the reconciliation process do not review the monthly account reconciliations to ensure that the account is being operated as intended.

During the fiscal year ended June 30, 2001, approximately \$45,000 was deposited into and paid out of this checking account. The account balance at June 30, 2001 was \$12,429.

*Recommendation:*

The Department must establish an appropriate segregation of responsibilities over the Fast Break account. The custodian of the account should not be a signatory, and an employee who has no other responsibility for the account should prepare the account reconciliations. Each of the monthly reconciliations should be reviewed and approved by a member of the Department's management to ensure that the account is operating as intended.

*Auditee Response:*

DJJS concurs with the observation. We will implement new procedures to segregate duties as of September 1, 2003. The procedures are as follows: the Fast Break coordinator will continue to be the custodian of the account but will no longer be a signatory on the account. The signatories will

be the Fast Break coordinator's supervisor and one designee. The DJJS Accountant III will do the monthly checking account reconciliation. The Accountant III will review the monthly reconciliation and activity to ensure the account is operating as intended. A copy of the reconciliation will be sent to the DJJS Director of Education for review and approval.

**Observation No. 30: Control Procedures Over Disbursements From The Special Projects And Youth Benefit Funds Should Be More Closely Monitored**

*Observation:*

Department control procedures over disbursements from the Special Projects and Youth Benefit Funds were less than effective as inconsistent compliance with the controls did not cause management action or prevent the disbursements from occurring.

The Department reports that it controls disbursements from its Special Projects and Youth Benefit Funds by requiring signed withdrawal slips or requests for funds memos to document the pre-approval of disbursements. The Department also reports it requires the subsequent presentation of an invoice or receipt to document the purchase made with the funds.

Audit testing revealed the Department did not consistently comply with these control policies yet there was no indication that Department management was made aware of, or responded to, the fact that disbursements were being processed that did not meet the Department's control policy requirements. For example:

- The Department was unable to provide copies of invoices or receipts to support three of ten (30%) Special Project Fund disbursements tested or for one of five (20%) Youth Benefit Fund disbursements tested. In addition, the Department was unable to provide copies of written pre-approvals for three of the five Youth Benefit Fund disbursements. Reportedly, no written pre-approvals were deemed necessary to support these disbursements as the disbursements were related to a longstanding annual fundraiser.

*Recommendation:*

The Department should more closely monitor its controls over disbursements from the Special Projects and Youth Benefit Funds. Responsible employees should be reminded of the importance of consistently performing control procedures.

*Auditee Response:*

DJJS concurs with the observation and the recommendation. The Business Office will address the issue of controls over disbursements by reviewing the current procedures and updating if necessary. The Business Office will also reinforce the importance of consistent compliance with the disbursement procedures via a memo to all responsible employees from the Financial Manager. These actions will be completed by November 1, 2003.

**Observation No. 31: Monitoring Of Controls Over The Processing And Handling Of Fiduciary Funds Should Be Improved - Youth Benefit Fund**

*Observation:*

The Department has not monitored the effectiveness of its control of requiring the issuance of receipt documents whenever Youth Benefit Fund money is passed between employees.

Department Policy and Procedures Manual, policy TDO-1-B-02, Juvenile, Cottage, and Other Funds, states there shall be an audit trail whenever money changes hands. A "Receipt of Funds" (yellow slip) shall be given to the "giver" of the funds by the "receiver." The receipts are intended to document accountability for the custody and transfer of the funds between employees and establish an audit trail.

The Youth Benefit Fund, a fiduciary fund maintained at the Department's Concord site, is not administered in compliance with this Department policy as receipt of funds slips are not issued nor required by Department employees. The lack of an audit trail or other evidence of accountability raises the risk that the responsibility for any error or fraud that may occur with these funds may not be determinable.

*Recommendation:*

The Department should improve the monitoring of its controls over the custody and transfer of Department fiduciary funds. The Department should ensure that accountability over the custody of these funds is established, as is an audit trail that documents the chain of responsibility over the handling of these funds. If the Department determines that the above noted policy is no longer efficient for its intended purpose, the Department should revise the policy to provide alternative procedures that establish and maintain employee accountability for Department trust funds.

*Auditee Response:*

DJJS concurs with the observation. We concur that the Youth Benefit Fund at the Youth Services Center in Concord was not managed in a manner consistent with DJJS policy.

Upon receipt of this observation, DJJS took the following immediate steps in February 2003 to address the management of the Youth Benefit Fund at the Youth Services Center. The Administrative Assistant at the Youth Services Center was directed to and is now issuing a "Receipt of Funds" to each person who submits funds. The DJJS Business Office will periodically audit the Youth Benefit Fund to review controls over custody of funds and to assure that there is a complete audit trail for each transfer of fiduciary funds. These audits will begin in July 2003.

## **Observation No. 32: Controls Over Resident And Cottage Funds Should Be Monitored**

### *Observation:*

During fiscal year 2001, the Department did not monitor and enforce employee compliance with its policies and procedures for safeguarding resident accounts.

The Department's Policies and Procedures Manual, policy TDO-1-B-02, Juvenile, Cottage, and Other Funds, requires:

- All money received for juveniles, cottages, or other funds be initially deposited into the Business Office via the Operations Office;
- All purchases be accompanied by receipts;
- Annual and random audits of the resident and cottage funds be conducted by the Business Office and a written report outlining the audit findings be distributed to the appropriate Director, Deputy, and Business Administrator; and
- Any funds held in the cottages be recorded on a simple accounting sheet.

Examples of noncompliance with Department policy include:

- Depositing net receipts with the Operations Office. For example, occasionally staff in charge of fundraisers, such as carwashes, will use event proceeds to purchase drinks, snacks, etc., for the residents while the event is in process. Generally, only the net proceeds from the event will be reported and turned in to the Operations Office. There are no receipts, other accountings provided of the deductions from gross revenue of the event, or even any recognition made that the gross revenue was other than what was reported.
- The Business Office performed no audits of juvenile, cottage, or other funds during fiscal year 2001.
- The completion of simple accounting sheets to track special projects and resident funds in the possession of cottage staff are not consistently prepared.

Other issues not currently covered by policy which would benefit from policy include:

- There are inconsistent practices in the accounting for cottage soda funds. In some cottages, soda funds are not reported to the Operations Office. In other cottages, the cash received from the soda funds is not consistently turned in to the Operations Office on the policy schedule; and
- There is inconsistent pricing of soda among the cottages. Some cottages charge residents \$.50 and others charge \$.75 for a soda.

### *Recommendation:*

The Department should increase its monitoring of controls over resident and cottage funds. Employees should be reminded of the need to adhere to current policy. Management should make certain that employees regard control policies as necessary procedures and not as red tape. In addition, the Department should review its current policies to determine whether additional or revised policies are needed that could be more effective or efficient.

*Auditee Response:*

DJJS concurs with the observation and recommendation. Beginning July 1, 2003, the Accountant III will meet with the cottage staff responsible for control of resident and cottage funds. A system for each cottage to monitor and maintain special projects and resident funds in a consistent manner will be implemented. The Business Office will audit the funds on an annual basis as well as conduct random unannounced audits throughout the year. The Accountant III will provide the audit findings to the appropriate parties as required by policy TDO-1-B-02. The Division will also review the current policies related to such funds to determine their effectiveness and whether they should be revised. This review process will occur contemporaneously with the implementation of the oversight described above.

**Observation No. 33: Use Of Trust Fund Income Should Be Reviewed**

*Observation:*

The Department does not appear to have policies and procedures in place to ensure that trust fund income is used to further the purposes of the trusts.

During fiscal year 2001, the Department's nonexpendable trust funds accrued approximately \$1,600 of earnings intended by trust provisions to be used for certain purposes including, library materials, scholarships, and prizes. No expenditures were made from several of these funds reportedly due to the Department's concerns that the trusts' provisions were too restrictive.

*Recommendation:*

The Department should review with legal counsel the provisions of its nonexpendable trust funds to determine and establish the allowable uses of the funds. Once determined, the Department should use the income from the funds as intended by the donors of the funds.

*Auditee Response:*

DJJS concurs with the observation. The Division will ask its legal counsel to review the provisions and status of all trusts for which the Division, or any predecessor entity, is a beneficiary. The purpose of such a review is to determine both the appropriate use(s) of such trust fund income or principal and whether legal action needs to be taken to clarify the possible uses of such funds.

**Observation No. 34: Controls For Paying Student/Resident Wages Should Be Established And Documented**

*Observation:*

The Department's policies for the payment of wages and benefits to students and residents of its facilities are not current or comprehensive.

The Department's policies for paying student wages at the Youth Development Center have not been revised since they were issued in 1983. The Department does not have any written policies for the payment of wages for students working at the Youth Services Center in the Special Education Recycling or the Fast Break food services programs. The amount paid biweekly to residents for good behavior is \$3.90, and reportedly was originally set at the cost of a certain number of cigarettes.

*Recommendation:*

The Department should establish controls including appropriate policies and procedures for the payment of wages and benefits to students and residents of its facilities. The policies and procedures should establish appropriate rates of pay based on an analysis of educational, custodial, and rehabilitative aims and objectives of the programs and also provide for periodic review of the pay rates.

The policies and procedures should include requirements for the documentation of the establishment and review of rates and the authority for the payment of wages and benefits. The policies should also require the documentation of the Department's claimed exemption from payroll taxes and fair labor standards (e.g. minimum wage).

*Auditee Response:*

DJJS concurs with the observation. The Division will establish a committee to review and revise the policies for the payment of wages and benefits to students and residents of its facilities. Once the policies have been reviewed and revised it will be the responsibility of the Financial Manager and the Accountant III to establish the rate of payment for wages and benefits. The Division expects the committee to begin its review by October 1, 2003.

## State Compliance Comments

### **Observation No. 35: Capital Projects Reports Should Be Filed**

*Observation:*

The Department did not submit any capital projects status reports during fiscal year 2001.

RSA 17-J:4 requires each State agency with capital budget projects to submit a status report on the projects every 60 days to the capital budget overview committee.

During fiscal year 2001, the Department had a capital projects budget and capital project expenditures of approximately \$1.7 million and \$249,000, respectively.

*Recommendation:*

The Department should submit capital projects status reports as required by statute.

*Auditee Response:*

DJJS concurs with the observation and the recommendation. The Division will assign this duty to the Financial Manager. The Financial Manager will submit capital projects status reports every 60 days as is required by law. This duty will commence with the beginning of fiscal year 2004.

### **Observation No. 36: Funds Presumed Abandoned Should Be Remitted To The State Treasury**

*Observation:*

The Department does not have policies and procedures to report to the State Treasury property retained by the Department that has apparently been abandoned by the owner.

RSA 471-C:15 states that intangible property, including money, checks, deposits, etc., that is held by a public agency which remains unclaimed by the owner for more than three years is presumed abandoned and according to RSA 471-C:19 and 21, is to be reported and paid to the State Treasury, Division of Abandoned Property.

At June 30, 2001, the Department held approximately \$6,000 that appears to have been abandoned as defined by RSA 471-C:15. Approximately \$4,000 of that amount were funds of prior Youth Development Center residents and approximately \$2,000 related to unclaimed student wages in the Youth Services Center recycling account.



The Department does not currently consider old, stale-dated (uncashed) checks to be abandoned property. In addition, the Department has not maintained detailed records of the payees of the stale-dated checks.

*Recommendation:*

The Department should establish policies and procedures to properly account for and report old, stale-dated checks and other intangible property presumed abandoned. Sufficient information should be maintained in the accounting record for all balances and expenditures to ensure that adequate records exist to specifically identify owners of the property. Regular efforts should be made to forward property to the owners prior to the property becoming subject to the abandoned property statutes.

*Auditee Response:*

DJJS concurs with the observation and the recommendations. The Division will review the guidelines of the State Treasury, Division of Abandoned Property. We will implement procedures to account for and report stale-dated checks and all other intangible property pursuant to RSA 471-C:15. The Division will ensure that we keep sufficient information in accounting records to be able to specifically identify owners of the property. The Business Office will research and attempt to forward property to the owners on a quarterly basis. All unclaimed property will be forwarded to the State Treasury as required by RSA 471-C:19 and 21. We expect to implement these procedures by December 31, 2003.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Department of Youth Development Services as of and for the fiscal year ended June 30, 2001, as listed in the table of contents, and have issued our report thereon dated April 9, 2003, which was qualified with respect to the lack of presentation of the financial position of the Department in the General, Special, and Capital Projects Funds and with respect to the lack of auditable records for general fixed assets.

Except as discussed in the previous paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Department of Youth Development Services as of and for the fiscal year ended June 30, 2001, we noted certain issues related to the operation of the Department of Youth Development Services that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included in Observations No. 37 through No. 43 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Department of Youth Development Services and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

*Office Of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

April 9, 2003

## Management Issues Comments

### **Observation No. 37: Parental Contributions Collected By The Counties Should Be Tracked**

#### *Observation:*

The Department does not track accounts receivable for parental contributions collected through the counties. Neither the Department nor the Department of Health and Human Services (DHHS) receives notification of court orders for parental contributions or have involvement in seeking or recording parental contributions. The Department is generally unaware of the process.

Per RSA's 169-B:40 I (c) and 169-D:29 I (c), the State has a right of action against parents for the support and necessities of their delinquent minor. The court determines the amount a parent is able to contribute.

Per RSA's 169-B:40 V and 169-D:29 V, the counties are authorized to collect parental contributions on behalf of the State and act as collection agents for the Department. The counties receive the court orders requiring parental contributions toward the cost of care and treatment for their delinquent child. The full amount collected from parents is remitted to the DHHS to be credited through the Bridges computer system with a 15% administrative fee credited to the collecting county. Neither the DHHS nor the Department tracks the amounts that are receivable from the parents and therefore the Department can not determine whether it is receiving all parental contribution directed by the court.

During fiscal year 2001, the counties remitted approximately \$20,000 in parental contributions. Contributions may be collected from parents for up to four years after a juvenile leaves placement with the Department.

#### *Recommendation:*

The Department should take an active role in the collection of its revenue. The Department should become familiar with, and involved in, the process of collecting parental contributions. Amounts due and collected from parents should be tracked to ensure that all amounts are properly accounted for. In order to understand the amount of contributions that it is due, the Department will need to obtain copies of all court orders directing parental contributions. Using that information, the Department should establish an accounts receivable to track ultimate collection and remittances of the amounts from the counties. Amounts that are not collected and remitted in accordance with the court orders should be pursued to determine the cause of the delay in collection.

#### *Auditee Response:*

DJJS concurs in part. We concur that during the period that the Department of Youth Development Services (DYDS) was a separate department, it had neither an understanding of the parental reimbursement process nor data concerning the amount of revenue from parental

reimbursement derived from placements at the facilities operated by DYDS. Since becoming part of DHHS, DJJS has significantly improved its understanding of the parental reimbursement process and has access to data concerning revenue from this means.

We concur that we need to have a comprehensive understanding of parental reimbursement as a part of our responsibility to fully understand all of our sources of revenue. We are working with DHHS to make sure that any parental reimbursement related to institutional placements is properly accounted for. For the following reasons we do not concur with the specific recommendations concerning the division's appropriate level of involvement in the parental reimbursement process (obtain and review copies of court orders for parental reimbursement, the establishment and tracking of accounts receivable, and follow-up to determine the cause of any delays in collection). First, the majority of these duties have been assigned to the counties as part of their responsibilities as collection agent for the state, a role assigned to them by statute. Second, assuming the \$20,000 annual amount for parental reimbursement collections related to institutional placement services remains accurate, assignment of staff from an already overburdened business office to this new function would not be cost effective.

### **Observation No. 38: Recovery Of Medical Costs Should Be Analyzed**

#### *Observation:*

The Department does not seek to recover the cost for prescriptions or in-house medical services provided to residents by doctors under contract to the Department from responsible parents/guardians or from their insurance carriers.

Medical services that are provided to residents in settings outside of the Department facilities are billed directly to appropriate insurance companies or to the resident's responsible parents/guardians. There is no mechanism in place at the Department other than inclusion of these costs in the calculation of the facilities' daily rates to recover directly from responsible parents/guardians or from their insurance carriers the cost of medical care provided to residents inside of the Department facilities.

While RSA 169-B:40, I(c) provides that the State has a right of action against parents for expenses incurred for the support of delinquent minors, and the right to require the parents to assign to the State any insurance benefits available to pay for services provided, the Department does not believe it is clear that this statute would allow by itself the Department to directly recover costs for in-house medical care from insurance companies or other responsible parties.

In reviewing Department records for one month (April 2001) the amount of Department payments for prescriptions for Youth Development Center residents was \$7,400. The Department did not attempt to recover any of this cost, even though a number of the affected residents had insurance coverage, presumably some with pharmacy benefits. There was no recovery of physician fees for in-house medical care. During fiscal year 2001, the Department expended approximately \$68,000 for contracted in-house medical services.

*Recommendation:*

The Department should perform a cost/benefit analysis of establishing a mechanism for seeking insurance and other recovery of in-house medical costs. The decision of whether to pursue recovery of costs should be based on a formal analysis of the best information available at the time. The analysis should be periodically performed to ensure that the decision remains appropriate.

*Auditee Response:*

DJJS concurs in part. We concur that DJJS has a responsibility, as does any state agency that provides medical services to its clients, to fully explore the opportunities for reimbursement for such services from third parties. To this end, and as continuation of a review of medical services and costs conducted in 2002 by Dartmouth Hitchcock Medical Center pediatrician Dr. Lindsay A. Thompson and under a grant from Endowment for Health, DJJS will, consistent with available resources, undertake the “cost/benefit analysis of establishing a mechanism for seeking insurance and other recovery of in-house medical costs.”

DJJS does not concur with the implication contained in the observation that the existing statutory provisions related to recovery from third parties for the cost of services (RSA 169-B:9 and 40), would, in their present form, permit the recovery of the costs of in-house medical services/prescription costs from insurance companies. RSA 169-B:19-C and 40 govern reimbursement for services delivered pursuant to a court order by providers certified under RSA 170-G:4, XVIII. In-house medical services provided by physicians under contract with DHHS and by our nursing staff to residents at the facilities operated by DJJS consist principally of basic dental care, medical care, medication administration and review and are not provided pursuant to court order for such services but pursuant to DJJS’ status as physical custodian of the juveniles placed at our facilities. Attendant to our status as physical custodian is the responsibility to provide basic medical care, including necessary medications. Without an explicit court order for the in-house medical services described above, we question whether RSA 169-B:40, in its present form is applicable.

The cost associated with the delivery of all medical services to our residents is included as part of the facilities’ daily rates, a court order for parental reimbursement issued pursuant to RSA 169-B:40 for the costs of institutional services includes reimbursement for all services (including medical services) provided at the facilities. Under the current statutory structure for parental reimbursement, there is no authority to separately bill parents for the costs of in-house medical care and medications.

In conclusion, we note our view that the current statutes would not permit the implementation of several of the suggestions contained in the observations, does not preclude the recommended analysis which, as noted above, we plan to conduct. We also note that statutes can be changed and several opportunities for legislative discussion and change presently exist. HB 587 (“Relative to reimbursement for services provided in delinquency, children in need of services and abuse and neglect proceedings”) has been retained by the House Children and Family Law Committee as a way to take a comprehensive look at parental reimbursement. At the request of

DJJS, Rep. Bickford has introduced a LSR for the 2004 legislative session (2003-H-2185-R: relative to third-party payment of certain medical services ordered by the juvenile court) to enable DJJS to address a number of problems that we have encountered in our efforts to obtain third-party insurance reimbursement for community-based as well as residential medical services.

**Observation No. 39: Controls Over Residents' Personal Property Should Be Improved - YDC**

*Observation:*

The Department does not have effective policies and procedures to account for residents' personal property.

The Department's control procedures at the Youth Development Center (YDC) require the completion of a Personal Property Control Form upon a resident's initial intake processing in the operations office. All cash, valuables, or other property brought with a resident to the campus are listed on the form and the form remains in the resident's cottage until the resident leaves the control of the institution. Because the residents are not required to go through the intake procedures in the operations office after returning from a temporary leave, there is no control to ensure that any property the resident brings back upon returning to the campus is properly listed on the Personal Property Control Form.

This lack of consistent application of the control intended by the completion of the form raises the risk that property belonging to a resident may be lost, claimed by another, or otherwise not returned to the owner upon the owner's leaving the campus.

Resident property records are not considered to be permanent records of the Department. Resident property records are shredded upon a resident aging out of the institution. The resolution of any disagreement over the proper handling of resident's property would be hampered by the lack of permanent records accounting for the property.

*Recommendation:*

Controls over YDC resident belongings should be improved. A copy of the resident's personal property records, currently the Personal Property Control Form, should be retained in the resident's intake file or other file that is separate from the resident's cottage records/file. In this way there would be a segregation of responsibility over the custody/oversight of the resident and the resident's property and the accounting for that property.

Procedures should be implemented to ensure that all personal property is included on the residents' property records. Any resident that leaves the campus and brings any property back to the campus should be subject to procedures to ensure that the resident's property records are appropriately revised.

The Department should consider retaining resident property records for a reasonable period of time after residents leave the control of the institution to ensure that any resolution of any disagreements over the proper handling of the property will not be hampered by the premature destruction of records.

*Auditee Response:*

DJJS concurs with the observation. The Division's Manager of Institutional Services is working with the appropriate parties to establish a revised policy concerning control over residents' personal property. This policy will address the discrepancies in the retention of records and controls over the property. A draft policy has been completed and is undergoing further review. We expect to finalize and implement the policy by November 1, 2003. In addition, DJJS is exploring the possible use of Bridges, the DJJS/DCYF automated case management system, to assist in the maintenance and updating of the personal property inventory.

**Observation No. 40: Controls Over Residents' Personal Property Should Be Improved - YDSU**

*Observation:*

The Department does not have effective policies and procedures to account for residents' personal property.

The personal property of youths coming under the control of the Youth Detention Services Unit (YDSU) is not recorded on a Personal Property Inventory form at intake but is listed on an envelope into which the property (money, jewelry, etc.) is placed. Items added to or removed from the envelope are recorded on the envelope along with the initials of the staff member accessing the envelope. When the youth is released from YDSU control, the personal property is returned to the youth and the envelope is discarded.

While residents are generally at YDSU for short periods of time, lessening the risk of lost or missing personal property, the failure of the YDSU to maintain a record of resident's personal property increases the risk that the YDSU may not be able to rebut a resident's potential claim that all cash or valuables were not returned upon the youth's exit from the YDSU. While the youth's signature on the YDSU Exit Check List may initially state there were no discrepancies noted, that may not be sufficient documentation to refute a later claim.

*Recommendation:*

Controls over YDSU residents' personal property should be improved. A copy of the resident's personal property records, currently listed on an envelope, should be retained in the resident's intake file or other file.

Procedures should be implemented to ensure that all personal property is included on the residents' property records.

The Department should consider retaining resident property records for a reasonable period of time after residents leave the control of the institution to ensure that any resolution of any disagreements over the proper handling of the property will not be hampered by the premature destruction of records.

*Auditee Response:*

DJJS concurs with the observation. The Division's Manager of Institutional Services is working with the appropriate parties to establish a revised policy concerning control over residents' personal property. This policy will address the discrepancies in the retention of records and controls over the property. A draft policy has been completed and is undergoing further review. We expect to finalize and implement the policy by November 1, 2003. In addition, DJJS is exploring the possible use of Bridges, the DJJS/DCYF automated case management system, to assist in the maintenance and updating of the personal property inventory.

**Observation No. 41: Controls Over Residents' Personal Property Should Be Improved – Tobey School**

*Observation:*

The Department does not have effective policies and procedures to account for residents' personal property.

Tobey School residents are allowed to retain a maximum of \$10 of cash on their person. A resident's cash in excess of \$10 is placed in an envelope for safekeeping. Amounts added to or removed from the envelope are recorded on the envelope along with the signatures of the resident authorizing the cash transaction and the staff member accessing the envelope. When the youth is released from Tobey School's control, any cash remaining to the youth's credit is returned to the youth and the envelope is discarded.

The few restrictions on resident spending and relatively high levels of cash activity in resident funds makes Tobey School's accounting and responsibility for residents' cash problematic. Tobey should recognize its accounting for resident cash on the cash envelopes is part of its accounting system and records and therefore should be retained for an appropriate period of time to support an audit trail and to document that Tobey is meeting its fiduciary responsibility.

The Department does not inventory or apply other control procedures to residents' noncash personal property.

*Recommendation:*

Controls over Tobey School residents' cash should be improved. A record of Tobey's involvement in the resident's cash transactions, currently listed on an envelope, should be retained in the resident's intake file or other file.



In addition to strengthening controls over resident cash, the Department should also consider applying controls to resident noncash property to help ensure that those assets are safeguarded during a resident's stay at Tobey.

The Department should consider retaining these resident property records for a reasonable period of time after residents leave the control of the institution to establish an appropriate audit trail and sufficient documentation to ensure that any resolution of any disagreements over the proper handling of the property will not be hampered by the premature destruction of records.

*Auditee Response:*

DJJS concurs with the observation. The Division's Manager of Institutional Services is working with the appropriate parties to establish a revised policy concerning control over residents' personal property. This policy will address the discrepancies in the retention of records and controls over the property. A draft policy has been completed and is undergoing further review. We expect to finalize and implement the policy by November 1, 2003. In addition, DJJS is exploring the possible use of Bridges, the DJJS/DCYF automated case management system, to assist in the maintenance and updating of the personal property inventory.

**Observation No. 42: Authority To Withhold Restitution From YSC Students Should Be Documented**

*Observation:*

Department policies regarding withholding restitution from resident/student accounts are incomplete, as they do not consider the withholding of restitution amounts from Youth Services Center (YSC) student funds.

Section IV G, paragraph 7 of the Department's policy, Juvenile, Cottage, and Other Funds addresses the authority and method for withholding court ordered or other restitution from resident/student funds. However, the manual does not specifically address the withholding of YSC student funds. During fiscal year 2001, approximately \$700 of YSC student funds were withheld for restitution purposes.

The Department should expand its policies and procedures manual restitution provisions to include the authority and method for withholding restitution from YSC student funds.

*Auditee Response:*

DJJS concurs with the observation. We concur that the failure to expressly authorize the withholding of student funds from Tobey School students for court ordered or other restitution in the Division's general policy should be addressed by revisions to this policy. The Business Office will expand the current policy to include restitution provisions from Tobey School student funds. This expansion will be complete by November 1, 2003.

**Observation No. 43: Need For Population Oversight Panel’s Annual Meetings Should Be Reviewed**

*Observation:*

The Population Oversight Panel has not met its statutory requirement for annual meetings.

RSA 621:10, II directs the Population Oversight Panel to meet annually during the month of October to review or modify population limits for each residential facility at or under the control of the Youth Development Center.

The Department reported that according to its records, the two most recent meetings of the panel occurred on June 22, 2001 and November 1994.

*Recommendation:*

The Department should request the Population Oversight Panel to meet annually as required by statute. If it is determined that the Department does not need the Panel to meet annually, the Department should request a change in legislation to remove the requirement for annual meetings from statute.

*Auditee Response:*

DJJS concurs with the observation. We concur that as long as RSA 621:10 is in effect, DJJS should take the necessary steps to insure that the Population Oversight Panel (“Panel”) meets as required by statute. To address the irregular occurrence of Panel meetings, DJJS will take the following steps on or before September 1, 2003: (1) The DJJS Director will send a letter to the DHHS Commissioner requesting that the DJJS Manager of Institutional Services be identified as the Commissioner’s representative to the Panel; (2) The DJJS Manager of Institutional Services will schedule the annual Panel Meeting on or before October 1<sup>st</sup> of each year and support the preparation of the Panel’s annual report; and (3) The DJJS Manger of Institutional Services will insure that the annual report is distributed and posted as required by RSA 621:10. In the event that a new architecturally secure facility for juveniles is constructed to replace the existing facility for committed juveniles at the Youth Development Center, DJJS will evaluate the continued need for the Panel and seek any legislative changes that flow from this evaluation.

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## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Department of Youth Development Services as of and for the fiscal year ended June 30, 2001, as listed in the table of contents. The financial statements are the responsibility of the Department of Youth Development Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the Department of Youth Development Services in the General, Special, and Capital Projects Funds.

As described in Note 2, the Department of Youth Development Services does not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had our audit not been limited in scope as discussed in the fourth paragraph and the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Department of Youth Development Services as of and for the fiscal year ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying schedules on pages 73 through 76 are presented for the purpose of additional analysis and are not required parts of the financial statements of the Department of Youth Development Services. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 9, 2003 on our consideration of the Department of Youth Development Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Office Of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

April 9, 2003

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - GENERAL, SPECIAL,  
AND CAPITAL PROJECTS FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Special	
	<u>Budget</u>	<u>Actual</u>	Favorable/ (Unfavorable) <u>Variance</u>	<u>Budget</u>	<u>Actual</u>
<u>Unrestricted Revenues</u>					
Miscellaneous Revenue	\$ 8,699	\$ 42,770	\$ 34,071	\$ -0-	\$ -0-
<b>Total Unrestricted Revenues</b>	<b><u>\$ 8,699</u></b>	<b><u>\$ 42,770</u></b>	<b><u>\$ 34,071</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>
<u>Restricted Revenues</u>					
County Reimbursements	\$ 6,190,419	\$ 2,872,350	\$ (3,318,069)	\$ -0-	\$ -0-
School District Reimbursements	1,599,563	1,635,999	36,436	-0-	-0-
Federal Funds	251,489	209,719	(41,770)	219,421	106,016
Other	81,846	26,001	(55,845)	-0-	-0-
<b>Total Restricted Revenues</b>	<b><u>\$ 8,123,317</u></b>	<b><u>\$ 4,744,069</u></b>	<b><u>\$ (3,379,248)</u></b>	<b><u>\$ 219,421</u></b>	<b><u>\$ 106,016</u></b>
 <b>Total Revenues</b>	 <b><u>\$ 8,132,016</u></b>	 <b><u>\$ 4,786,839</u></b>	 <b><u>\$ (3,345,177)</u></b>	 <b><u>\$ 219,421</u></b>	 <b><u>\$ 106,016</u></b>
<u>Expenditures</u>					
Youth Development Center	\$ 11,064,514	\$ 8,056,983	\$ 3,007,531	\$ -0-	\$ -0-
Tobey School	4,130,489	2,296,233	1,834,256	-0-	-0-
Youth Detention Services Unit	2,139,346	1,618,275	521,071	-0-	-0-
Administration	963,543	949,252	14,291	-0-	-0-
Workers Compensation	669,647	554,751	114,896	-0-	-0-
Miscellaneous	92,465	22,352	70,113	-0-	-0-
Federal Education Programs	-0-	-0-	-0-	224,501	105,519
Generators	-0-	-0-	-0-	-0-	-0-
Agency Networking	-0-	-0-	-0-	-0-	-0-
Renovations and Repairs	-0-	-0-	-0-	-0-	-0-
<b>Total Expenditures</b>	<b><u>\$ 19,060,004</u></b>	<b><u>\$ 13,497,846</u></b>	<b><u>\$ 5,562,158</u></b>	<b><u>\$ 224,501</u></b>	<b><u>\$ 105,519</u></b>
 <b>Excess (Deficiency) Of Revenues</b>					
<b>Over (Under) Expenditures</b>	<b><u>\$ (10,927,988)</u></b>	<b><u>\$ (8,711,007)</u></b>	<b><u>\$ 2,216,981</u></b>	<b><u>\$ (5,080)</u></b>	<b><u>\$ 497</u></b>

The accompanying notes are an integral part of this financial statement.

<b>Fund</b>	<b>Capital Projects Fund</b>			<b>Totals (Memorandum Only)</b>		
	<b>Favorable/ (Unfavorable) Variance</b>	<b>Budget</b>	<b>Actual</b>	<b>Favorable/ (Unfavorable) Variance</b>	<b>Budget</b>	<b>Actual</b>
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 8,699	\$ 42,770	\$ 34,071
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,699</u>	<u>\$ 42,770</u>	<u>\$ 34,071</u>
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 6,190,419	\$ 2,872,350	\$ (3,318,069)
-0-	-0-	-0-	-0-	1,599,563	1,635,999	36,436
(113,405)	-0-	-0-	-0-	470,910	315,735	(155,175)
-0-	-0-	-0-	-0-	81,846	26,001	(55,845)
<u>\$ (113,405)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,342,738</u>	<u>\$ 4,850,085</u>	<u>\$ (3,492,653)</u>
<u>\$ (113,405)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 8,351,437</u>	<u>\$ 4,892,855</u>	<u>\$ (3,458,582)</u>
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 11,064,514	\$ 8,056,983	\$ 3,007,531
-0-	-0-	-0-	-0-	4,130,489	2,296,233	1,834,256
-0-	-0-	-0-	-0-	2,139,346	1,618,275	521,071
-0-	-0-	-0-	-0-	963,543	949,252	14,291
-0-	-0-	-0-	-0-	669,647	554,751	114,896
-0-	-0-	-0-	-0-	92,465	22,352	70,113
118,982	-0-	-0-	-0-	224,501	105,519	118,982
-0-	157,235	62,696	94,539	157,235	62,696	94,539
-0-	198,463	161,503	36,960	198,463	161,503	36,960
-0-	1,305,248	24,957	1,280,291	1,305,248	24,957	1,280,291
<u>\$ 118,982</u>	<u>\$ 1,660,946</u>	<u>\$ 249,156</u>	<u>\$ 1,411,790</u>	<u>\$ 20,945,451</u>	<u>\$ 13,852,521</u>	<u>\$ 7,092,930</u>
<u>\$ 5,577</u>	<u>\$ (1,660,946)</u>	<u>\$ (249,156)</u>	<u>\$ 1,411,790</u>	<u>\$ (12,594,014)</u>	<u>\$ (8,959,666)</u>	<u>\$ 3,634,348</u>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**BALANCE SHEET  
EXPENDABLE TRUST FUNDS  
JUNE 30, 2001**

**Assets**

Cash	\$ 46,373
<b>Total Assets</b>	<b><u>\$ 46,373</u></b>

**Liabilities And Fund Balance**

**Liabilities:**

Total Liabilities	<u>\$ -0-</u>
-------------------	---------------

**Fund Balance:**

Reserved For Various Trust Funds	<u>46,373</u>
Total Fund Balance	<u>46,373</u>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 46,373</u></b>

The accompanying notes are an integral part of this financial statement.



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - EXPENDABLE TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Revenues</u>	
Fast Break Food Service Program	\$ 45,006
Campus Store	30,072
Recycling Program	8,774
Special Projects Fund	8,548
Youth Services Center Trust Fund	3,080
<b>Total Revenues</b>	<b><u>\$ 95,480</u></b>
 <u>Expenditures</u>	
Fast Break Food Service Program	\$ 46,206
Campus Store	33,337
Recycling Program	7,961
Special Projects Fund	6,769
Youth Benefit Fund	3,438
<b>Total Expenditures</b>	<b><u>\$ 97,711</u></b>
 <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	 <b><u>\$ (2,231)</u></b>
 Fund Balance - July 1, 2000	 <u>\$ 48,604</u>
 <b>Fund Balance - June 30, 2001</b>	 <b><u>\$ 46,373</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**BALANCE SHEET  
NONEXPENDABLE TRUST FUNDS  
JUNE 30, 2001**

<b><u>Assets</u></b>	
Cash And Cash Equivalents	\$ 61,645
<b>Total Assets</b>	<b><u>\$ 61,645</u></b>
<b><u>Liabilities And Fund Balance</u></b>	
<b><u>Liabilities:</u></b>	
Total Liabilities	<u>\$ -0-</u>
<b><u>Fund Balance:</u></b>	
Reserved For Various Trust Funds	<u>61,645</u>
Total Fund Balance	<u>61,645</u>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 61,645</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
NONEXPENDABLE TRUST FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Operating Revenues</u>	
Dividend Income	\$ 3,419
Contributions	<u>500</u>
<b>Total Operating Revenues</b>	<b><u>\$ 3,919</u></b>
 <u>Operating Expenses</u>	
Payments To Beneficiaries	\$ 1,875
<b>Total Operating Expenses</b>	<b><u>\$ 1,875</u></b>
 <b>Net Income</b>	 <b>\$ 2,044</b>
 Fund Balance - July 1, 2000	 <u>\$ 59,601</u>
 <b>Fund Balance - June 30, 2001</b>	 <b><u>\$ 61,645</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**BALANCE SHEET  
AGENCY FUNDS  
JUNE 30, 2001**

<b><u>Assets</u></b>	
Cash	\$ 26,036
Accounts Receivable	<u>995</u>
<b>Total Assets</b>	<b><u>\$ 27,031</u></b>
<b><u>Liabilities And Fund Balance</u></b>	
<b><u>Liabilities:</u></b>	
Custodial Funds Payable	<u>\$ 27,031</u>
Total Liabilities	<u>27,031</u>
<b><u>Fund Balance:</u></b>	
Total Fund Balance	<u>-0-</u>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 27,031</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
<b><u>Assets</u></b>				
Cash	\$ 14,330	\$ 48,730	\$ 37,024	\$ 26,036
Due From General Fund	321	25,058	24,384	995
<b>Total Assets</b>	<b><u>\$ 14,651</u></b>	<b><u>\$ 73,788</u></b>	<b><u>\$ 61,408</u></b>	<b><u>\$ 27,031</u></b>
<b><u>Liabilities</u></b>				
Custodial Funds Payable	\$ 14,651	\$ 73,788	\$ 61,408	\$ 27,031
<b>Total Liabilities</b>	<b><u>\$ 14,651</u></b>	<b><u>\$ 73,788</u></b>	<b><u>\$ 61,408</u></b>	<b><u>\$ 27,031</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Department of Youth Development Services have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

The Department of Youth Development Services is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Department of Youth Development Services.

The financial activity of the Department of Youth Development Services is accounted for and reported in the State's General, Special, Capital Projects, and Fiduciary Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Department of Youth Development Services, as an organization of the primary government, accounts for only a small portion of the General, Special, and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department of Youth Development Services cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position or change in fund balances of the Department of Youth Development Services in the General, Special, and Capital Projects Funds.

**B. Basis Of Presentation - Fund Accounting**

The State of New Hampshire and the Department of Youth Development Services use funds and account groups to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

## *Governmental Fund Types*

### General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund.

### Special Revenue Funds

The Special Fund, one of the State's Special Revenue Funds, is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes.

### Capital Projects Fund

The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes or by the application of certain federal matching grants.

## *Fiduciary Fund Type*

### Trust And Agency Funds

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in the fiduciary fund category. The trust and agency fund type comprises expendable trust funds, nonexpendable trust funds, and agency funds. All assets of an expendable trust fund can be expended to achieve the purpose for which it was established. The principle of the nonexpendable trust funds is held in perpetuity, whereas the earnings on the principle are used to support the fund's purpose. Agency funds account for assets received by the State as an agent for other governmental units, other organizations, or individuals.

## *Account Groups*

### General Fixed Assets (Unaudited)

The General Fixed Assets Account Group is used to account for the fixed assets of the governmental funds. As of June 30, 2001, the Department of Youth Development Services had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

## **C. Measurement Focus And Basis Of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial

transactions relating to the General, Special, and Capital Projects Funds on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

Agency Fund assets and liabilities are recorded on the modified accrual basis.

Nonexpendable trust funds are accounted for on a flow of economic resources measurement focus and reported on the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

#### **D. Budgetary Data**

##### *General Budget Policies*

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the Department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents appropriations for individual projects, which extend over several fiscal years. Fiduciary-type funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a Department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level. As shown on the Schedules of Budgetary Components for the General, Special, and Capital Projects Funds on pages 73, 74, and 75, respectively, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources and to maintain an integrated financial accounting system. The



Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

#### *Variances - Favorable/(Unfavorable)*

The variance columns on the Combined Statement Of Revenues and Expenditures - Budget And Actual – General, Special, and Capital Projects Funds highlight differences between budget and actual revenues and expenditures. For revenues, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

#### *Encumbrances*

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. The Department of Youth Development Services' unliquidated encumbrance balances at June 30, 2001 were \$300,686, \$39,522, and \$618,956 in the General, Special, and Capital Projects Funds, respectively.

#### **E. Interpretation Of Totals (Memorandum Only) Column**

The “totals (memorandum only)” column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information, since interfund balances and transactions have not been eliminated.

#### **F. Fixed Assets – General (Unaudited)**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. For State Comprehensive Annual Financial Report reporting purposes, the State capitalizes equipment that costs \$10,000 or more and land, land improvements, building, building improvements, and construction in progress with costs of \$100,000 or greater. All purchased fixed assets are valued at historical cost and in some instances at estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Interest costs incurred during

construction are not capitalized. Infrastructure general fixed assets consisting of roads, lighting systems, sidewalks, drainage systems, curbs and gutters are not capitalized, as these assets are immovable and of value only to the State. Assets in the General Fixed Assets Account Group are not depreciated.

### G. Interfund And Intrafund Transactions

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge user fees for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

### NOTE 2 -- GENERAL FIXED ASSETS ACCOUNT GROUP (Unaudited)

The following is a summary of fixed assets at June 30, 2001 reported by the Department of Youth Development Services. As well as reporting general fixed assets as defined by the State for financial reporting purposes, the Department of Youth Development Services also reports equipment with a historical cost of \$100 or more and useful life of greater than one year as required by the State Manual of Procedure.

The General Fixed Assets Account Group was not audited due to the absence of complete financial records to support the amounts included in the account group.

General Fixed Assets	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Land And Land Improvements	\$ 2,330,477	\$ -0-	\$ -0-	\$ 2,330,477
Buildings And Building Improvements	8,539,180	-0-	-0-	8,539,180
Equipment	<u>295,615</u>	<u>132,342</u>	<u>44,728</u>	<u>383,229</u>
<b>Total General Fixed Assets</b>	<b><u>11,165,272</u></b>	<b><u>132,342</u></b>	<b><u>44,728</u></b>	<b><u>11,252,886</u></b>
 Equipment With Original Cost Between \$100 And \$10,000	 <u>1,367,808</u>	 <u>139,162</u>	 <u>89,615</u>	 <u>1,417,355</u>
 <b>Total General Fixed Assets And Other Equipment</b>	 <b><u>\$ 12,533,080</u></b>	 <b><u>\$ 271,504</u></b>	 <b><u>\$ 134,343</u></b>	 <b><u>\$ 12,670,241</u></b>

### NOTE 3 -- CASH, CASH EQUIVALENTS AND INVESTMENTS

#### *Deposits*

The Department of Youth Development Services is custodian of six checking accounts known as the resident account, campus store account, special projects account, youth benefit fund account, fast break account, and special education recycling account. Of these accounts, three are interest bearing and three are non-interest bearing. The checking accounts are for the deposit of residents' personal funds, proceeds of program activities, donations, and other miscellaneous contributions or moneys. In accordance with **RSA 621:30,II,(b)**, the Department also maintains individual savings accounts for residents who have personal funds exceeding \$200. At June 30, 2001, the Department maintained nine such accounts.

The Department is FDIC insured for the six checking accounts up to \$100,000. Additionally, it is FDIC insured for the individual savings accounts up to \$100,000. The total bank balance represents amounts on deposit as reported by the banking institutions at June 30, 2001. The carrying amount represents the balance per the Department of Youth Development Services' records at June 30, 2001. The difference between the bank balance and the carrying amount consists of checks and deposits that have not cleared the bank as of June 30, 2001.

	Bank Balance			Total Carrying Amount
	FDIC Insured	Uninsured	Total	
	Demand Deposits	\$ 57,824	\$ -0-	
Savings Deposits	16,274	-0-	16,274	16,244
<b>Total Deposits</b>	<b>\$ 74,098</b>	<b>\$ -0-</b>	<b>\$ 74,098</b>	<b>\$ 72,383</b>

The Department also maintains a resident cash-on-hand account to provide residents with ready access to their personal funds. The maximum amount of cash-on-hand was set at \$550 by the Governor and Executive Council. At June 30, 2001 the balance in the cash on hand account was \$229.

#### *Investments*

The following statutory requirements and Treasury policies have been adopted to ensure reasonable rates of return on investments while minimizing risk.

The State Treasurer, under the authority of RSA 11:1, acts as custodian of the Department's nonexpendable trust fund investments. In accordance with RSA 11:5, all trust funds in the custody of the treasurer are invested and reinvested in legal instruments allowable under RSA 6:8. During fiscal year 2001, the Department's nonexpendable trust funds were invested in money market mutual funds.

In accordance with GASB Statement No. 3, investments are classified as to risk by the three categories described below:

- Category 1 Insured or registered in the State's name, or securities held by the State or its agent in the State's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or its trust department or agent but not in the State's name.

In accordance with GASB Statement No. 3, mutual fund investments should be disclosed but not categorized. The Department's investments at June 30, 2001, summarized by type and risk category, are shown in the following schedule.

	Categories			Uncategorized	Fair Value
	1	2	3		
Open-ended Mutual Funds	\$ -0-	\$ -0-	\$ -0-	\$ 61,442	\$ 61,442
<b>Total Investments</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 61,442</b>	<b>\$ 61,442</b>

The \$61,442 mutual fund investment above is included in the cash and cash equivalents reported on the Nonexpendable Trust Funds balance sheet due to the investment's liquidity. For purposes of the notes to the financial statements, the mutual fund investment is defined as an investment in accordance with GASB Statement No. 3.

#### NOTE 4 -- EMPLOYEE BENEFIT PLANS

##### *New Hampshire Retirement System*

The Department, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers substantially all full-time employees of the Department. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of state and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Department of Youth Development Services employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2001, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the Department's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Department of Youth Development Services' payments for normal contribution costs for the fiscal year ended June 30, 2001 amounted to 3.94% of the covered payroll for its Group I employees. The Department's normal contributions for the fiscal year ended June 30, 2001 were \$333,000.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus  $\frac{1}{2}$  of 1%.

The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, and historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30. The New Hampshire Retirement System's financial report may be obtained by writing to them at 4 Chenell Drive, Concord, NH 03301-8509 or from their web site at <http://www.state.nh.us/retirement>.

#### *Post-employment Health Care Benefits*

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through an insurance company whose premiums are based on the benefits paid during the year. The State recognizes the cost of providing these benefits by paying the entire annual insurance premium.

During the fiscal year ended June 30, 2001, the State paid for the full cost of health insurance premiums for the Department of Youth Development Services' retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Department's retired employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for retired Department of Youth Development Services employees and spouses is not included in the Department's financial statements.

#### **NOTE 5 -- FEDERAL FUNDS**

The Schedule of Expenditures of Federal Awards (the Schedule), on page 76, is presented for the purpose of additional analysis. Expenditures for all programs, except for *Food Distribution*, are presented in the Schedule on the cash basis of accounting; expenditures are recorded when paid rather than when the obligation is incurred. The expenditures presented in the Schedule for the *Food Distribution* program represent the federally assigned value of the nonmonetary federal financial assistance for the federal surplus food distributed to the Department.

#### **NOTE 6 -- VARIANCE FROM BUDGET – GENERAL FUND**

Budgeted revenues and expenditures reported on the Statement of Revenues and Expenditures - Budget and Actual - General Fund exceed actual revenues and expenditures by \$3.3 million and \$5.6 million, respectively. The primary factors causing these variances were balances brought forward from prior fiscal years related to a board and care dispute with the counties that began in fiscal year 1999 and continued until it was resolved in fiscal year 2001. By statute, counties are responsible for 25% of the board and care costs for their residents placed in Department facilities. The amounts brought forward into fiscal year 2001 related to disputed county reimbursements increased the fiscal year 2001 revenue and expenditure budgets by \$2.7 and \$2.8 million, respectively. The dispute was resolved and the related balances were lapsed to the General Fund at the close of fiscal year 2001.

#### **NOTE 7 -- SUBSEQUENT EVENT**

Chapter 286, Laws of 2001 transferred all functions, powers, duties, personnel, records, property, and funds of the Department of Youth Development Services under RSA 621 and RSA 621-A to the Department of Health and Human Services, effective September 14, 2001. Effective with the transfer, Department of Youth Development Services' operations were continued within the Department of Health and Human Services' Division for Juvenile Justice Services.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**SCHEDULE OF BUDGETARY COMPONENTS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<b><u>Revenues</u></b>					
<b><u>Unrestricted Revenues</u></b>					
Miscellaneous Revenue	\$ 8,699	\$ -0-	\$ -0-	\$ -0-	\$ 8,699
<b>Total Unrestricted Revenues</b>	<b>\$ 8,699</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 8,699</b>
<b><u>Restricted Revenues</u></b>					
County Reimbursements	\$ 3,480,504	\$ 19,957	\$ 2,689,958	\$ -0-	\$ 6,190,419
School District Reimbursements	1,281,443	318,120	-0-	-0-	1,599,563
Federal Funds	174,229	50,000	27,260	-0-	251,489
Other	76,669	5,177	-0-	-0-	81,846
<b>Total Restricted Revenues</b>	<b>\$ 5,012,845</b>	<b>\$ 393,254</b>	<b>\$ 2,717,218</b>	<b>\$ -0-</b>	<b>\$ 8,123,317</b>
<b>Total Revenues</b>	<b>\$ 5,021,544</b>	<b>\$ 393,254</b>	<b>\$ 2,717,218</b>	<b>\$ -0-</b>	<b>\$ 8,132,016</b>
<b><u>Expenditures</u></b>					
Youth Development Center	\$ 8,312,146	\$ 97,626	\$ 2,584,334	\$ 70,408	\$ 11,064,514
Tobey School	2,109,352	314,725	1,654,912	51,500	4,130,489
Youth Detention Services Unit	1,642,401	17,015	460,930	19,000	2,139,346
Administration	976,536	4,829	321	(18,143)	963,543
Workers Compensation	669,647	-0-	-0-	-0-	669,647
Miscellaneous	82,953	5,177	4,335	-0-	92,465
<b>Total Expenditures</b>	<b>\$ 13,793,035</b>	<b>\$ 439,372</b>	<b>\$ 4,704,832</b>	<b>\$ 122,765</b>	<b>\$ 19,060,004</b>
<b>Excess (Deficiency) Of Revenues</b>					
Over (Under) Expenditures	<b>\$ (8,771,491)</b>	<b>\$ (46,118)</b>	<b>\$ (1,987,614)</b>	<b>\$ (122,765)</b>	<b>\$ (10,927,988)</b>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**SCHEDULE OF BUDGETARY COMPONENTS  
SPECIAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<u>Restricted Revenues</u>					
Federal Funds	\$ 162,871	\$ 54,997	\$ 1,553	\$ -0-	\$ 219,421
<b>Total Restricted Revenues</b>	<b>\$ 162,871</b>	<b>\$ 54,997</b>	<b>\$ 1,553</b>	<b>\$ -0-</b>	<b>\$ 219,421</b>
<b>Total Revenues</b>	<b>\$ 162,871</b>	<b>\$ 54,997</b>	<b>\$ 1,553</b>	<b>\$ -0-</b>	<b>\$ 219,421</b>
 <u>Expenditures</u>					
Federal Education Programs	\$ 162,872	\$ 54,996	\$ 6,633	\$ -0-	\$ 224,501
<b>Total Expenditures</b>	<b>\$ 162,872</b>	<b>\$ 54,996</b>	<b>\$ 6,633</b>	<b>\$ -0-</b>	<b>\$ 224,501</b>
 <b>Excess (Deficiency) Of Revenues</b>					
<b>Over (Under) Expenditures</b>	<b>\$ (1)</b>	<b>\$ 1</b>	<b>\$ (5,080)</b>	<b>\$ -0-</b>	<b>\$ (5,080)</b>



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**SCHEDULE OF BUDGETARY COMPONENTS  
CAPITAL PROJECTS FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<b>Total Revenues</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Expenditures</u>					
Generators	\$ -0-	\$ -0-	\$ 157,235	\$ -0-	\$ 157,235
Agency Networking	-0-	-0-	198,463	-0-	198,463
Renovations and Repairs	<u>-0-</u>	<u>-0-</u>	<u>1,305,248</u>	<u>-0-</u>	<u>1,305,248</u>
<b>Total Expenditures</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,660,946</u>	<u>\$ -0-</u>	<u>\$ 1,660,946</u>
<b>Excess (Deficiency) Of Revenues</b>					
<b>Over (Under) Expenditures</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (1,660,946)</u>	<u>\$ -0-</u>	<u>\$ (1,660,946)</u>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF YOUTH DEVELOPMENT SERVICES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Catalog Number</u>	<u>Federal Grantor Pass-Through Entity Federal Program Title</u>	<u>Expenditures</u>
10.550	U.S. Department of Agriculture N.H. Department of Administrative Services <i>Food Distribution</i>	\$ 8,118
10.553/10.555	U.S. Department of Agriculture N.H. Department of Education <i>National School Lunch &amp; Breakfast Programs</i>	173,545
16.593	U.S. Department of Justice N.H. Department of Education <i>Residential Substance Abuse Treatment</i>	35,819
84.010	U.S. Department of Education N.H. Department of Education <i>Title I Grants To Local Educational Agencies</i>	46,252
84.027	U.S. Department of Education N.H. Department of Education <i>Special Education - Grants To States</i>	<u>20,220</u>
	Total	<u>\$ 283,954</u>

**APPENDIX**

**CURRENT STATUS OF PRIOR PERFORMANCE AUDIT FINDINGS**

The following is a summary, as of April 9, 2003, of the current status of the observations and other issues and concerns contained in the performance audit report entitled *Juvenile Justice Organization*, dated November 1998 that related to the Department’s operations. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906. The table below presents the Department of Youth Development Services’ evaluation of the status of those observations in the performance audit report that were relevant to Department, called for Department action, and remained relevant subsequent to the September 2001 transfer of Department to the Department of Health and Human Services. The Department’s evaluation of current status has not been verified by this Office.

	<b>Status Per <u>Department</u></b>
<i>Observations</i>	
7. Tobey Special Education School Surplus (Department should revise billing rates to reflect actual costs and determine the appropriate disposition of the surplus.)	● ○ ○
15. Investigative Reports Do Not Always Accompany Committed Youths	● ● ○
<i>Other Issues And Concerns</i>	
3.4 Eligibility Guidelines Need Examination	● ○ ○

**Status Key**

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

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